

# The *Washington* State of the Economy

Presented to  
Washington Health Care Association

Steve Lerch  
Executive Director

August 27, 2014  
SeaTac, Washington



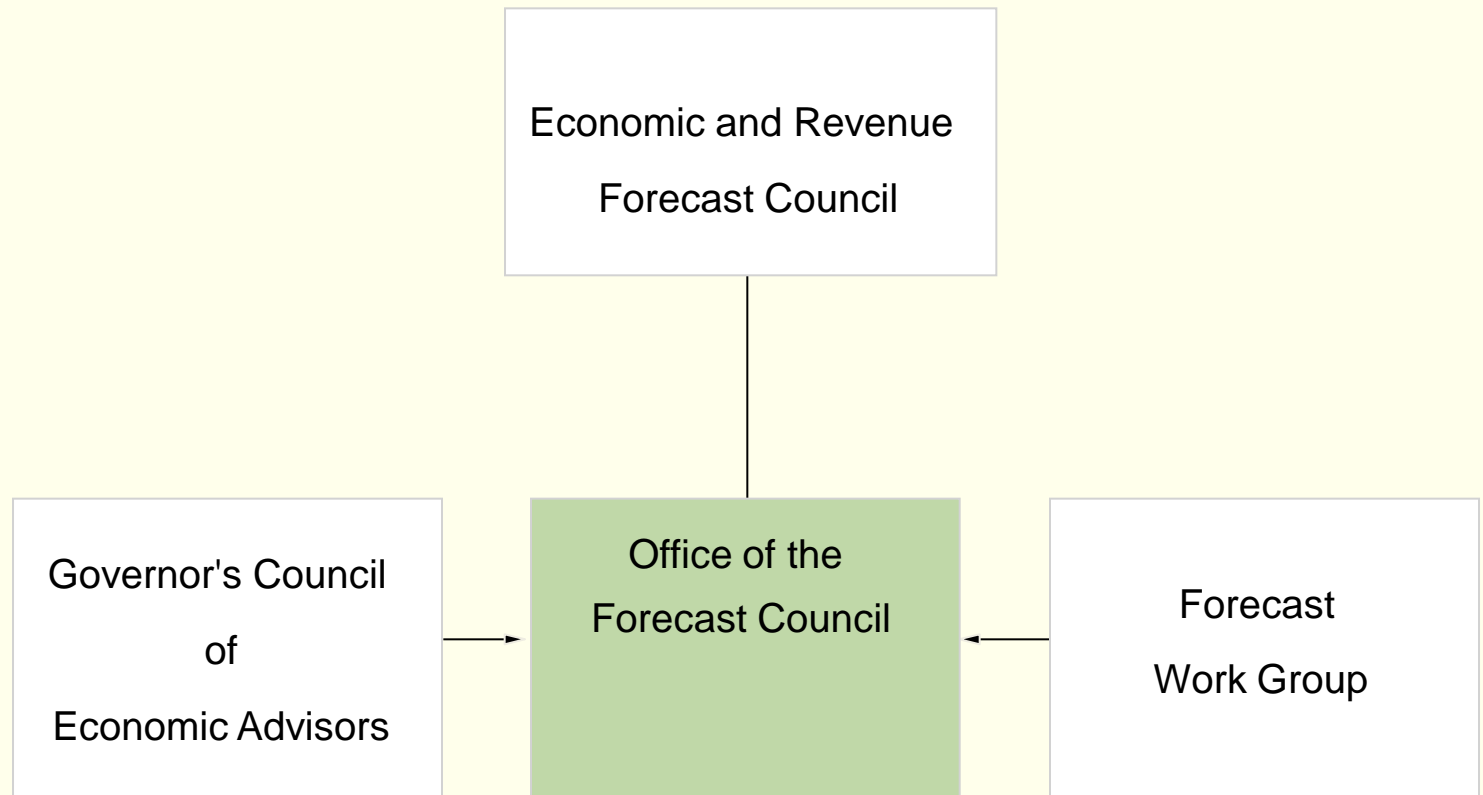
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# Forecast Governance

## **ERFC**

- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five



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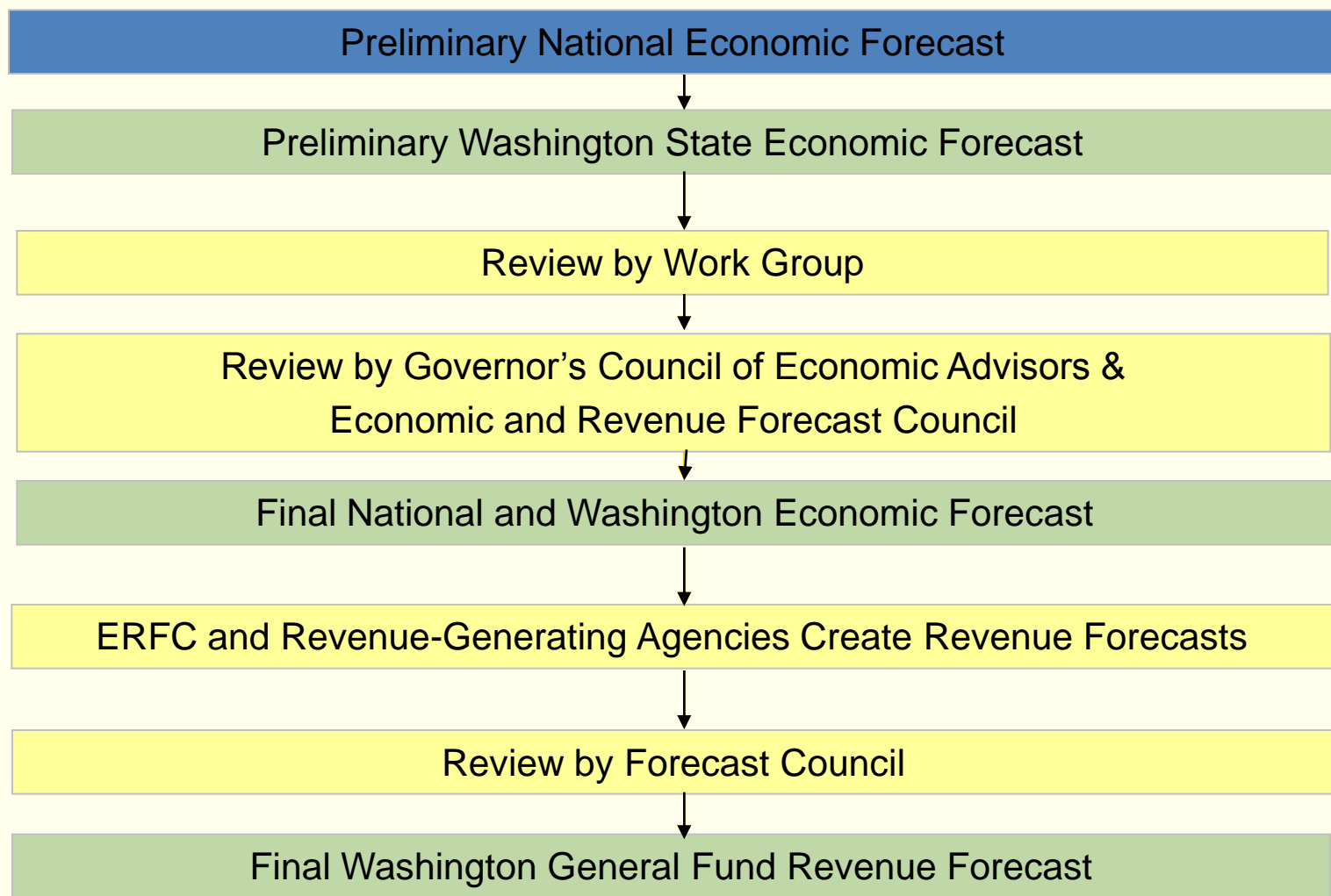
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# ERFC Forecast Process

The national economic forecast is based by the Global Insight model



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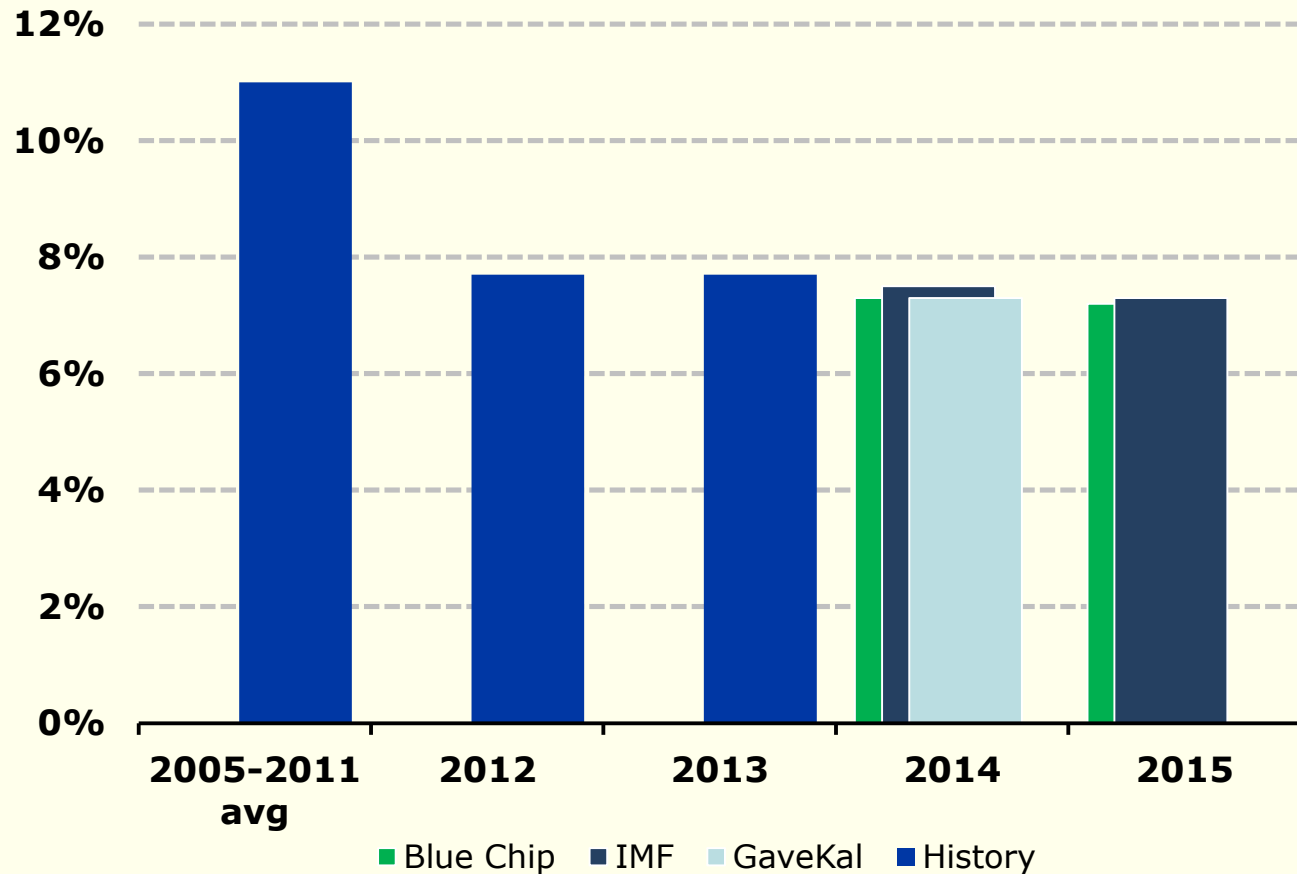


# Forecast Summary

- Our economic forecast has been fairly consistent, with moderate economic growth in the U.S. after the weather-related contraction in 1<sup>st</sup> quarter of 2014
- The Washington economy continues to grow slowly, with employment rising in most sectors except aerospace
- Risks to the forecast include the potential for slower Chinese economic growth, possible disruptions to the housing recovery, and turmoil in the Middle East; recent labor market strength suggests potential upside risks as well
- The June forecast increased tax revenues by 0.5% for the 2013-15 biennium and by 0.7% million for the 2015-17 biennium



# China's 2014 & 2015 GDP growth expected to be below 2013 rate

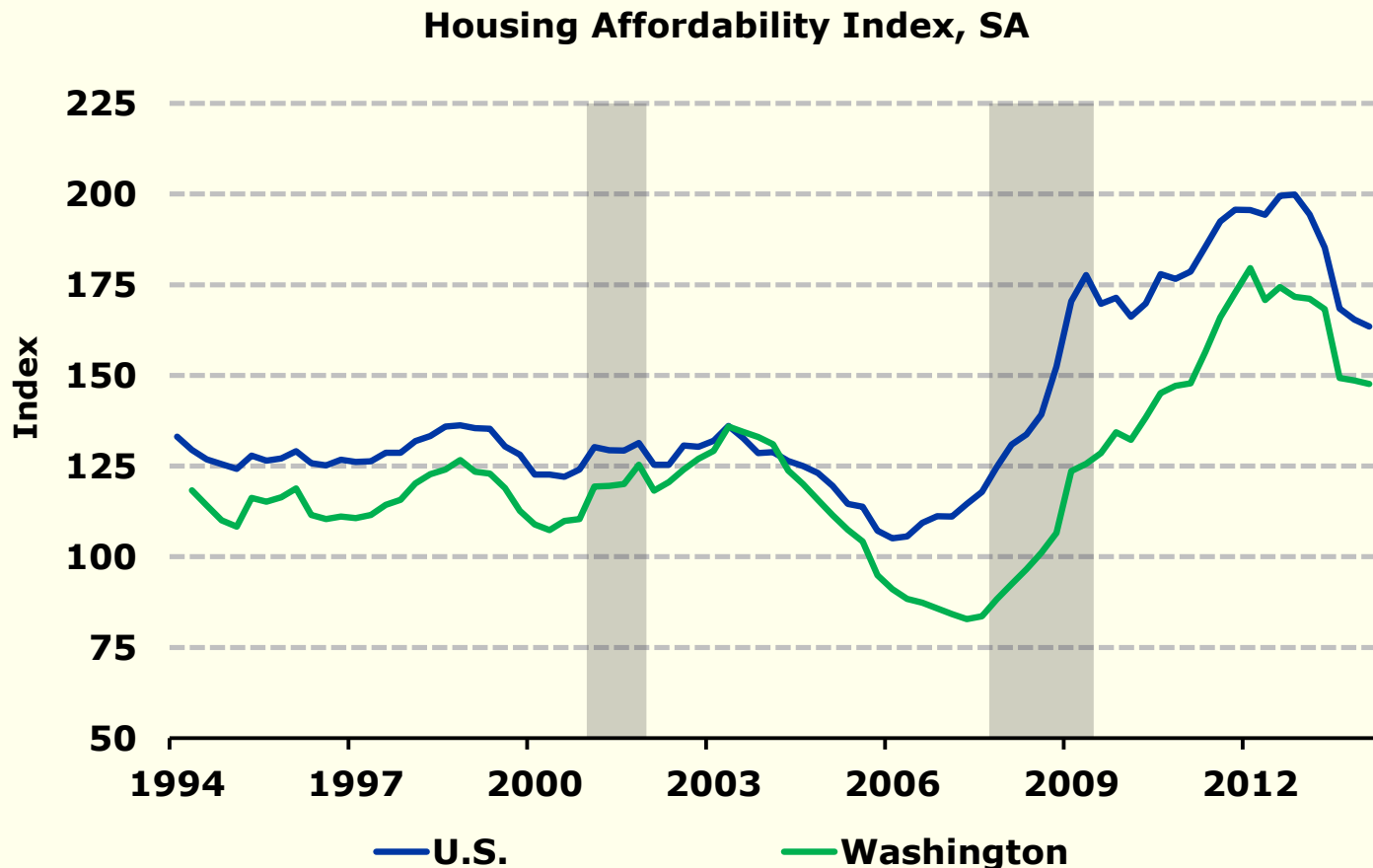


Source: Blue Chip, IMF, ISI; historical data through 2013

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# Rising mortgage rates and home prices have reduced affordability

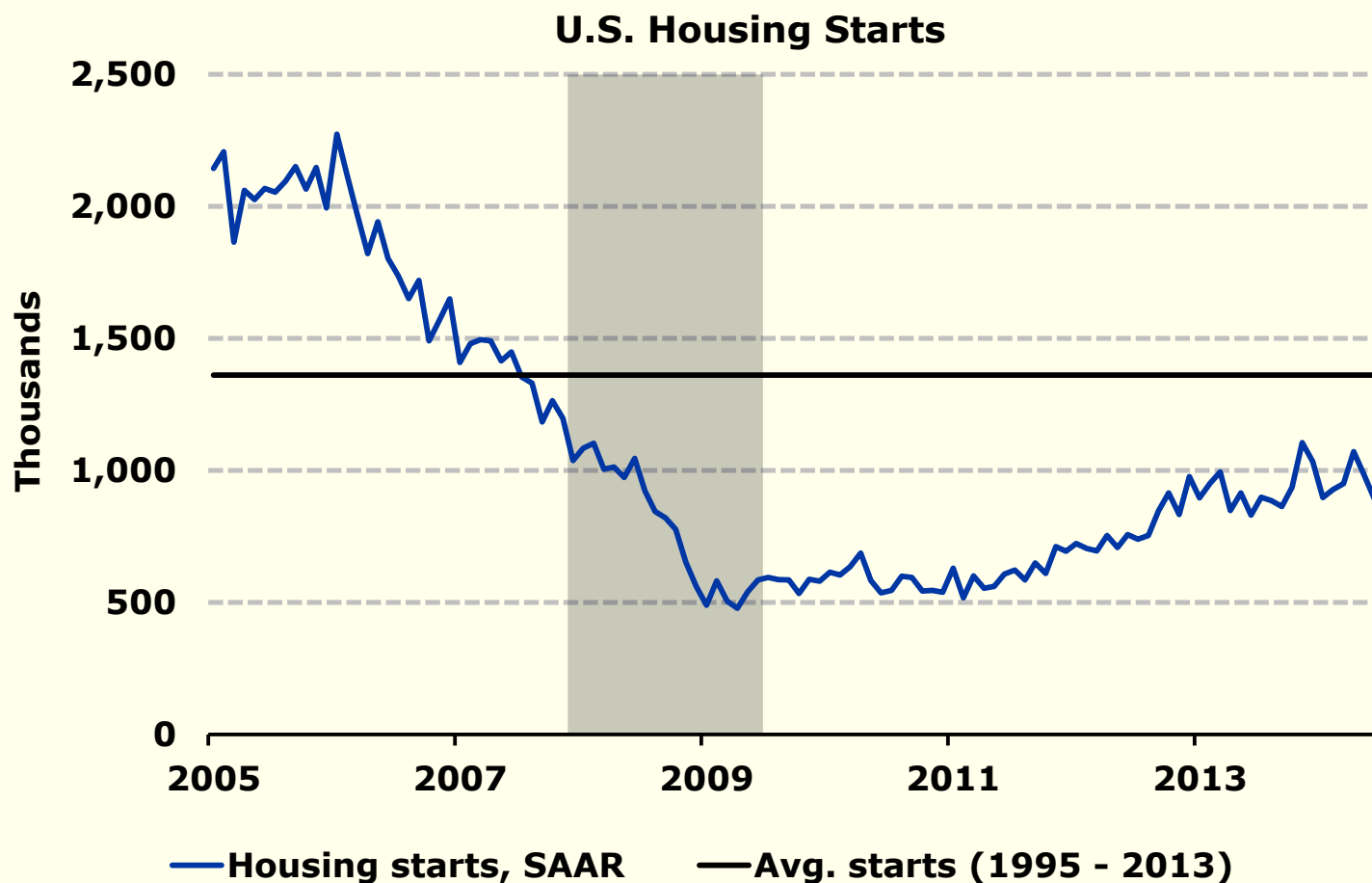


Source: Global Insight, WA Center Real Estate Research, ERFC; data through 2014Q1

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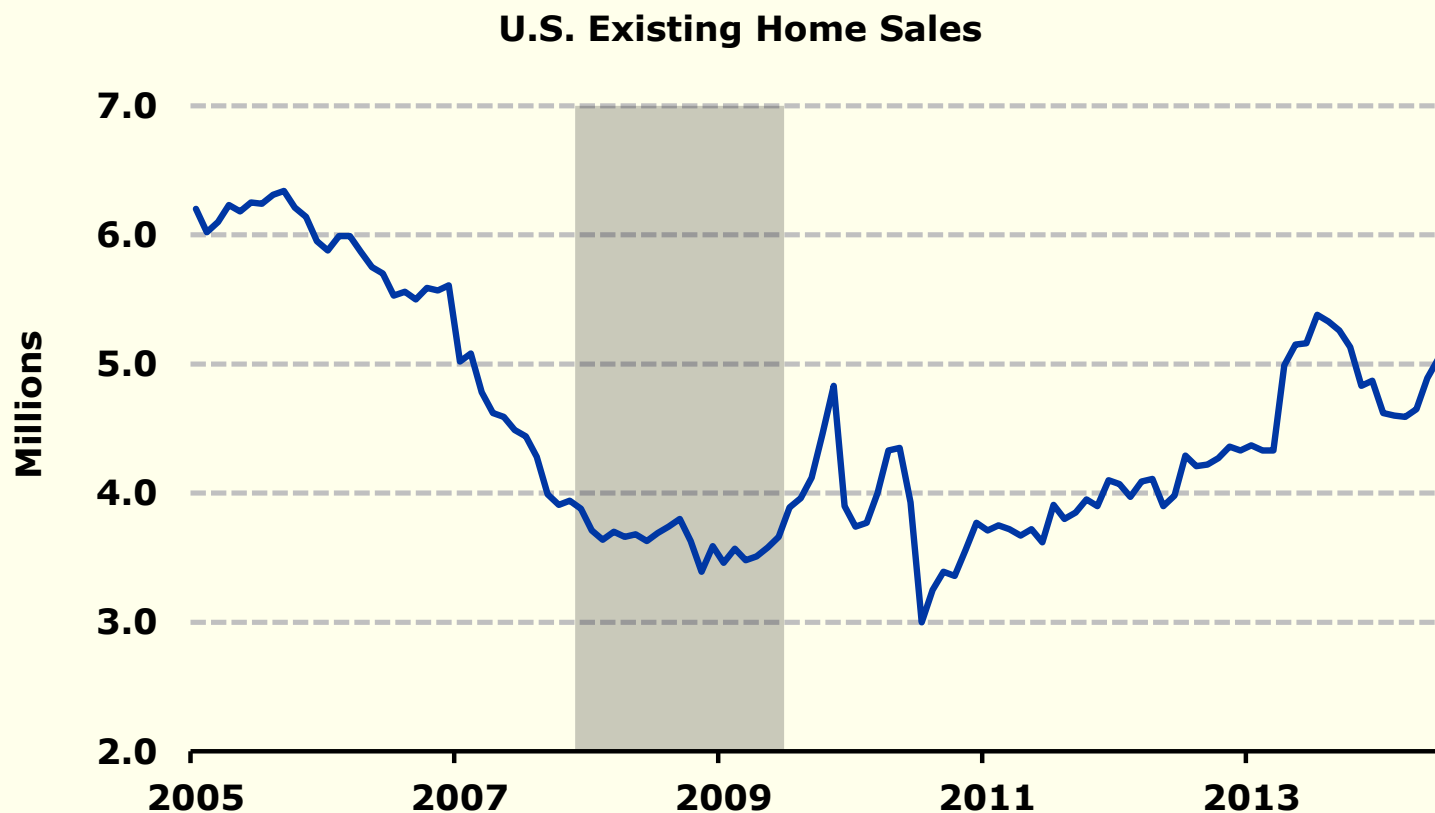
# Housing starts remain below historic average



Source: U.S. Census; data through June 2014



# Home sales have turned up recently



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Source: National Association of Realtors; data through June 2014

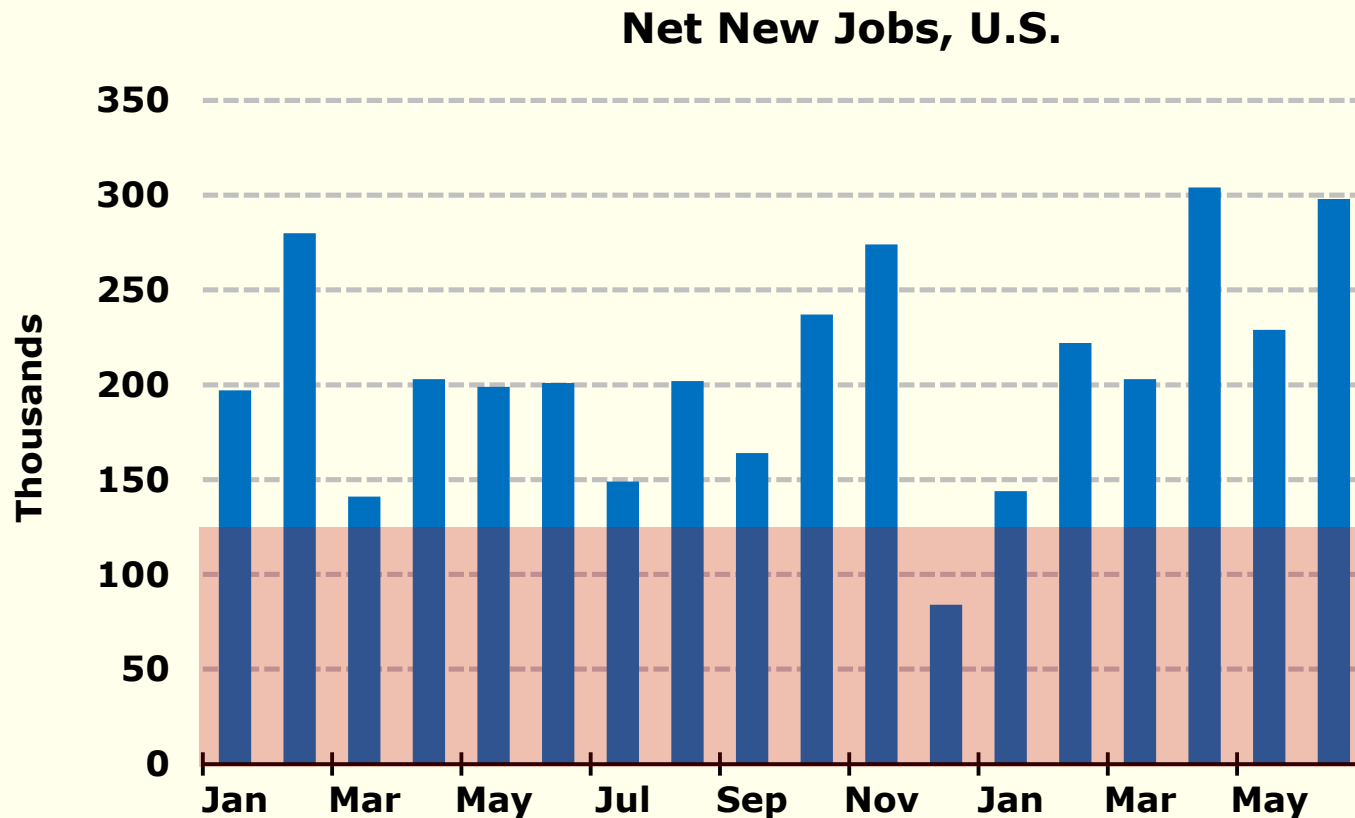
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# Job growth has strengthened

The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force



Source: Bureau of Labor Statistics, data through July 2014

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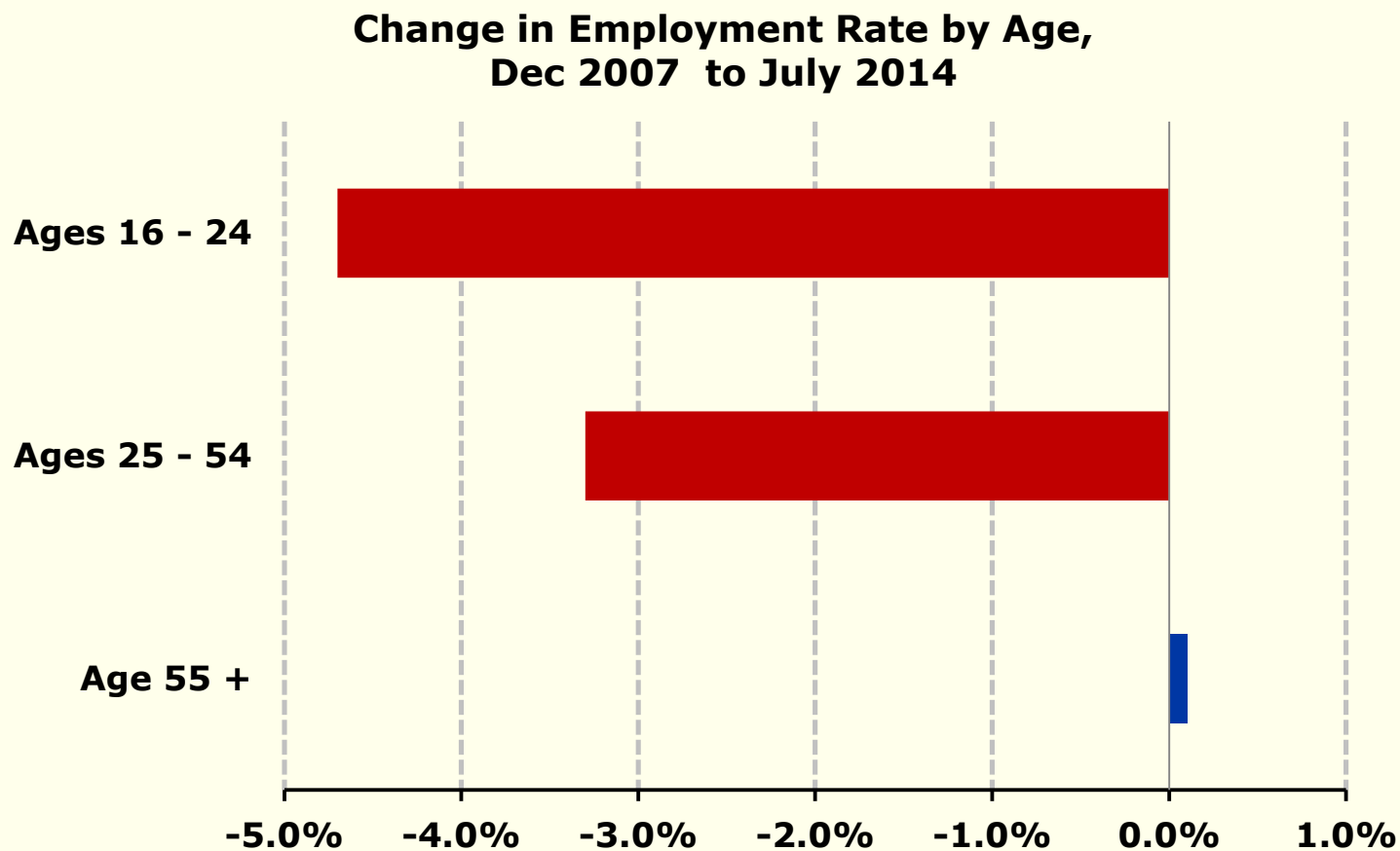
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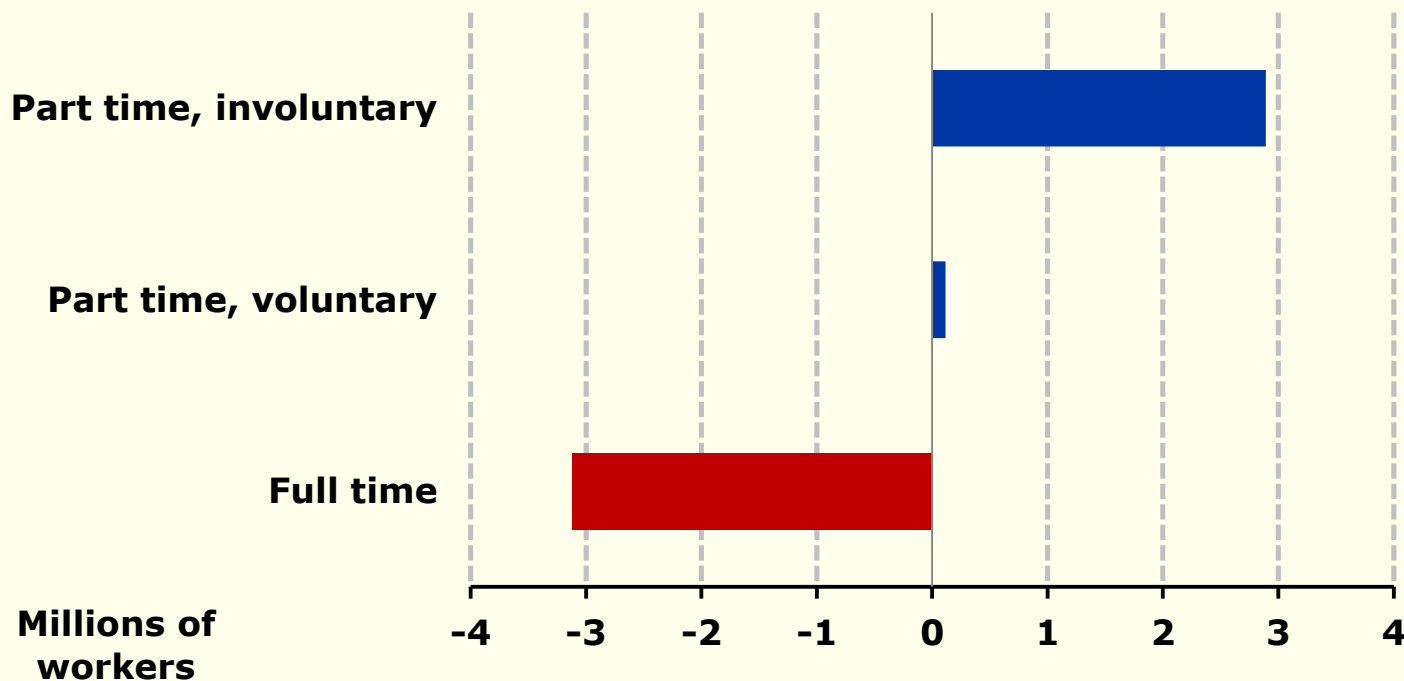
# The fraction of people ages 16 - 54 with a job has declined





# Full-time jobs have decreased while part-time employment has increased

**Change in employment by hours worked,  
Dec 2007 – July 2014**



Source: Bureau of Labor Statistics; data Dec. 2007 – July 2014

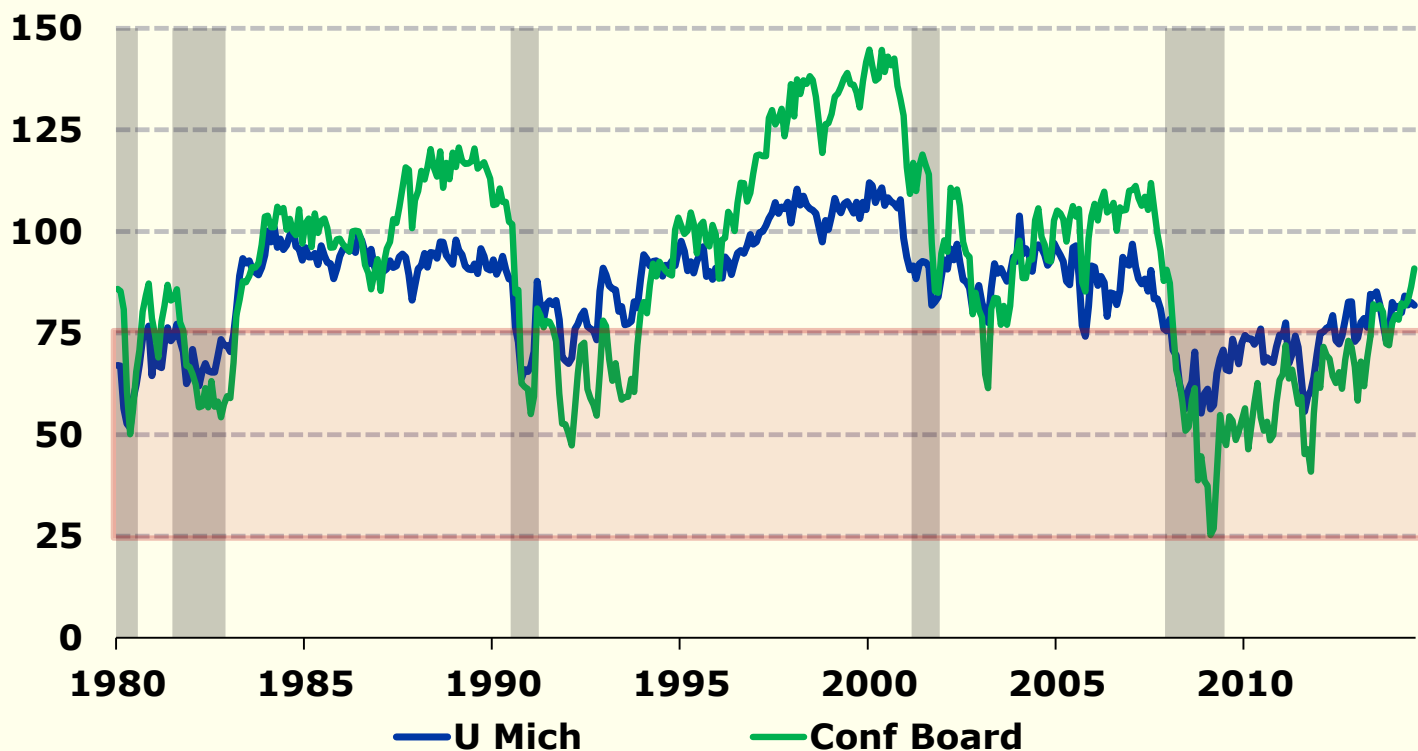


# Consumer confidence has improved but still below pre-recession levels

**Index**

**Mich: 1966Q1 = 100, SA**

**Conf Board: 1985 = 100, SA**



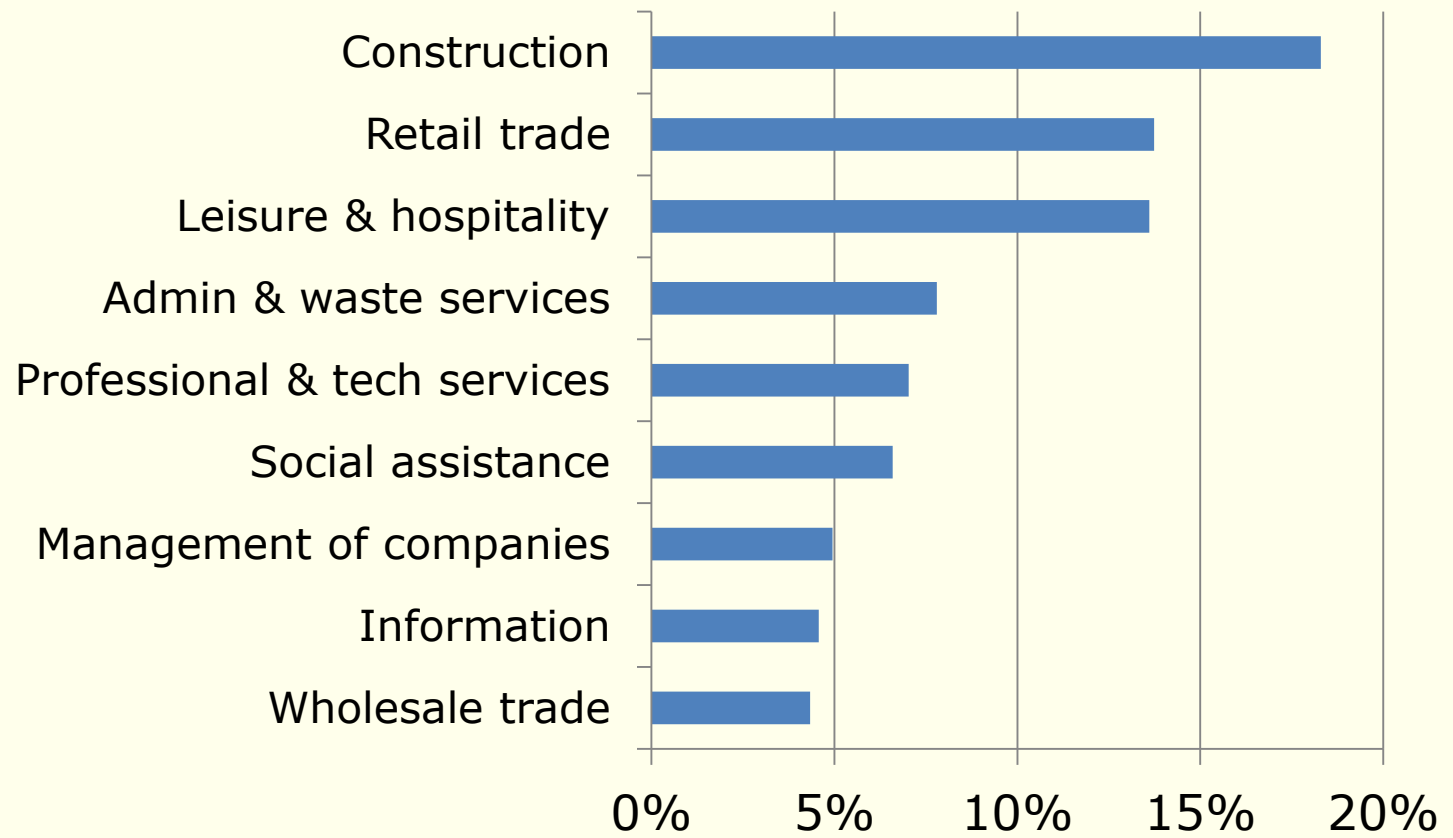
Source: University of Michigan; Conference Board, data through July 2014



# The construction sector has created 18% of net new jobs in WA this year

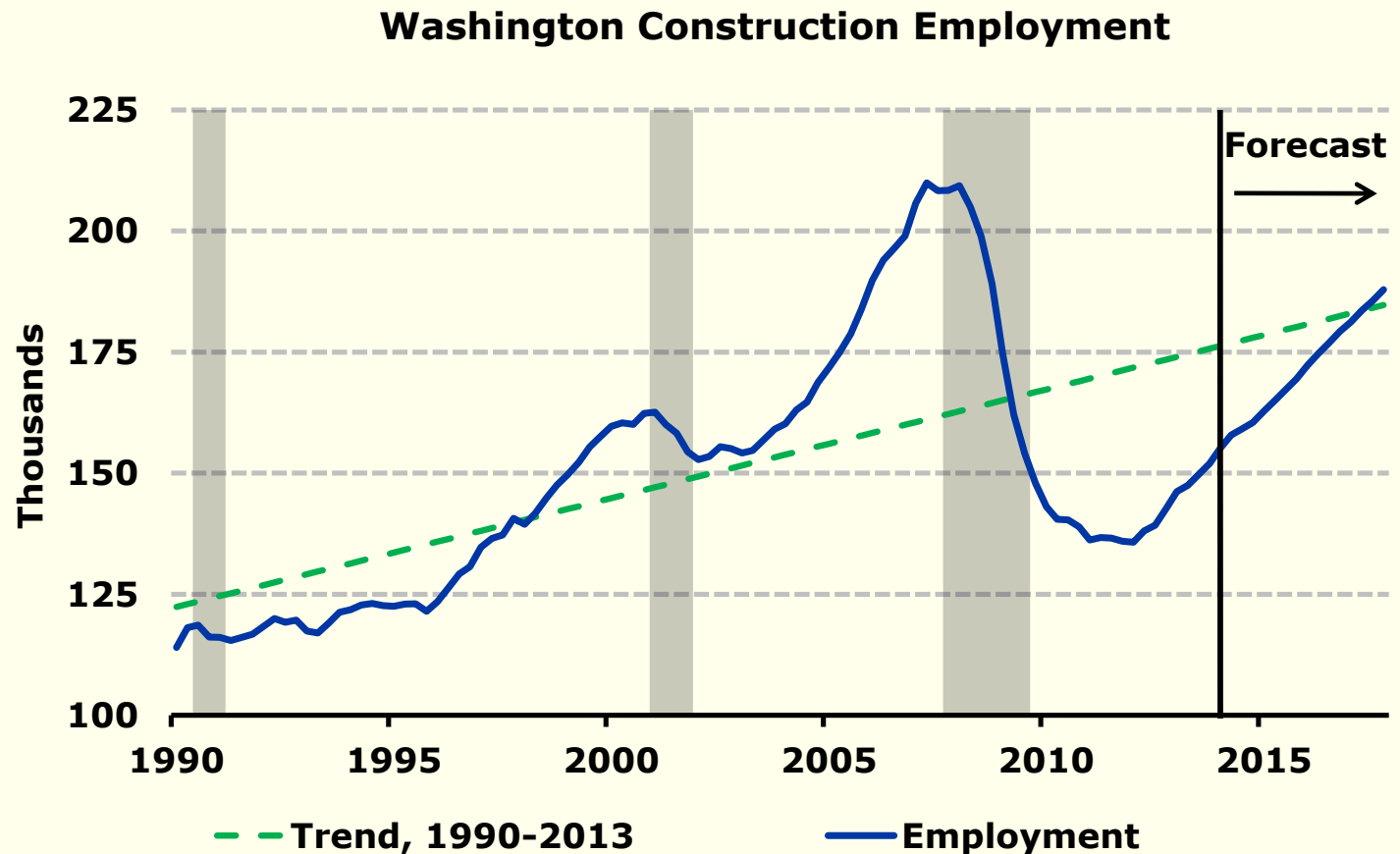
The state's economy has created 48,900 net new jobs through July of this year

**% net new jobs, 2014**





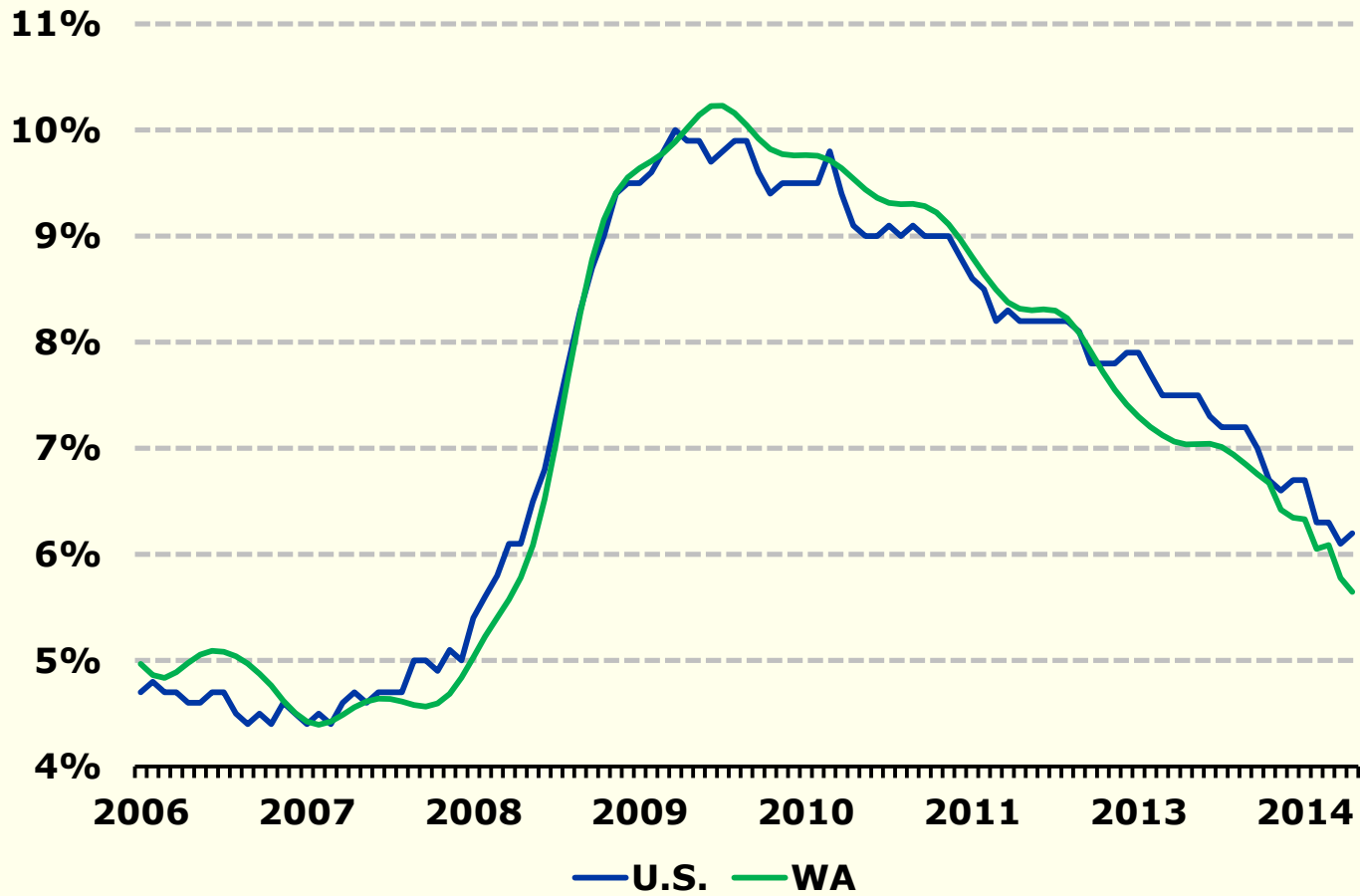
# Washington construction employment is recovering



Source: ERFC June 2014 forecast; historical data through 2014Q2



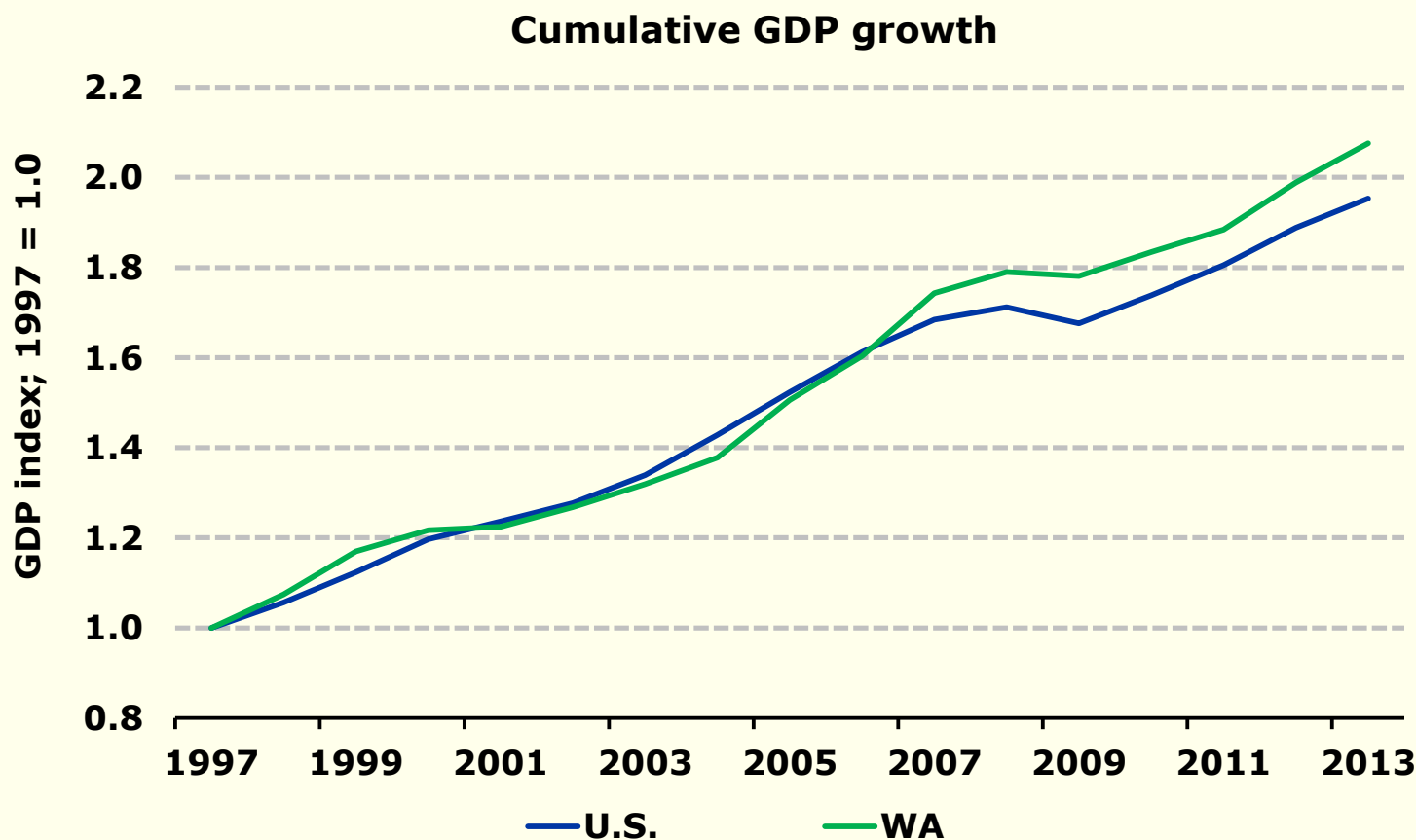
# Washington's unemployment rate has been below the U.S. rate since late 2012



Source: Employment Security Dept., BLS; data through July 2014



# Washington GDP has grown faster than U.S. GDP for the last two years



Source: Bureau of Economic Analysis; data through 2013

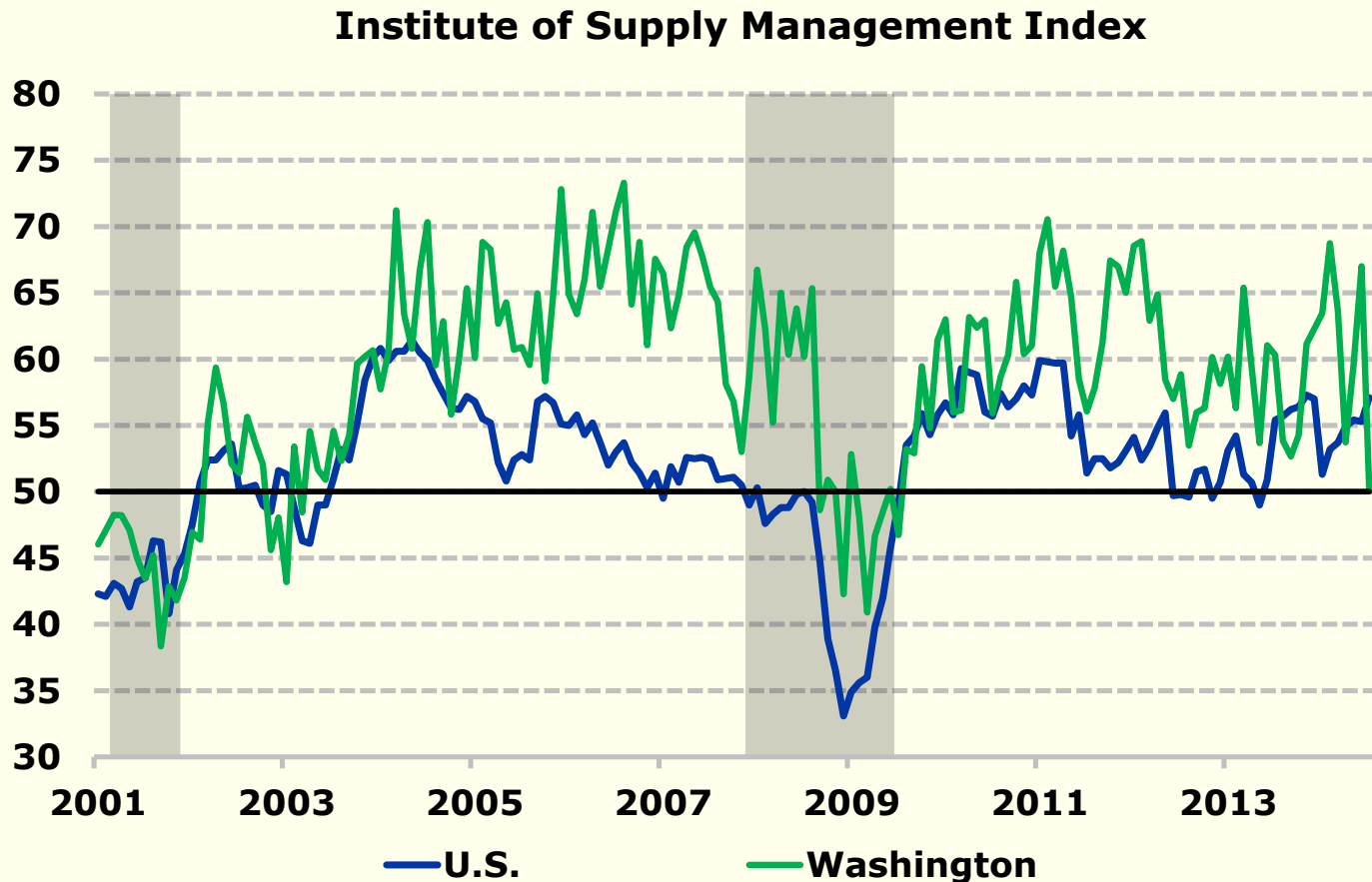
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# WA manufacturing activity has been strong but dipped in July

An index greater than 50, implies growth

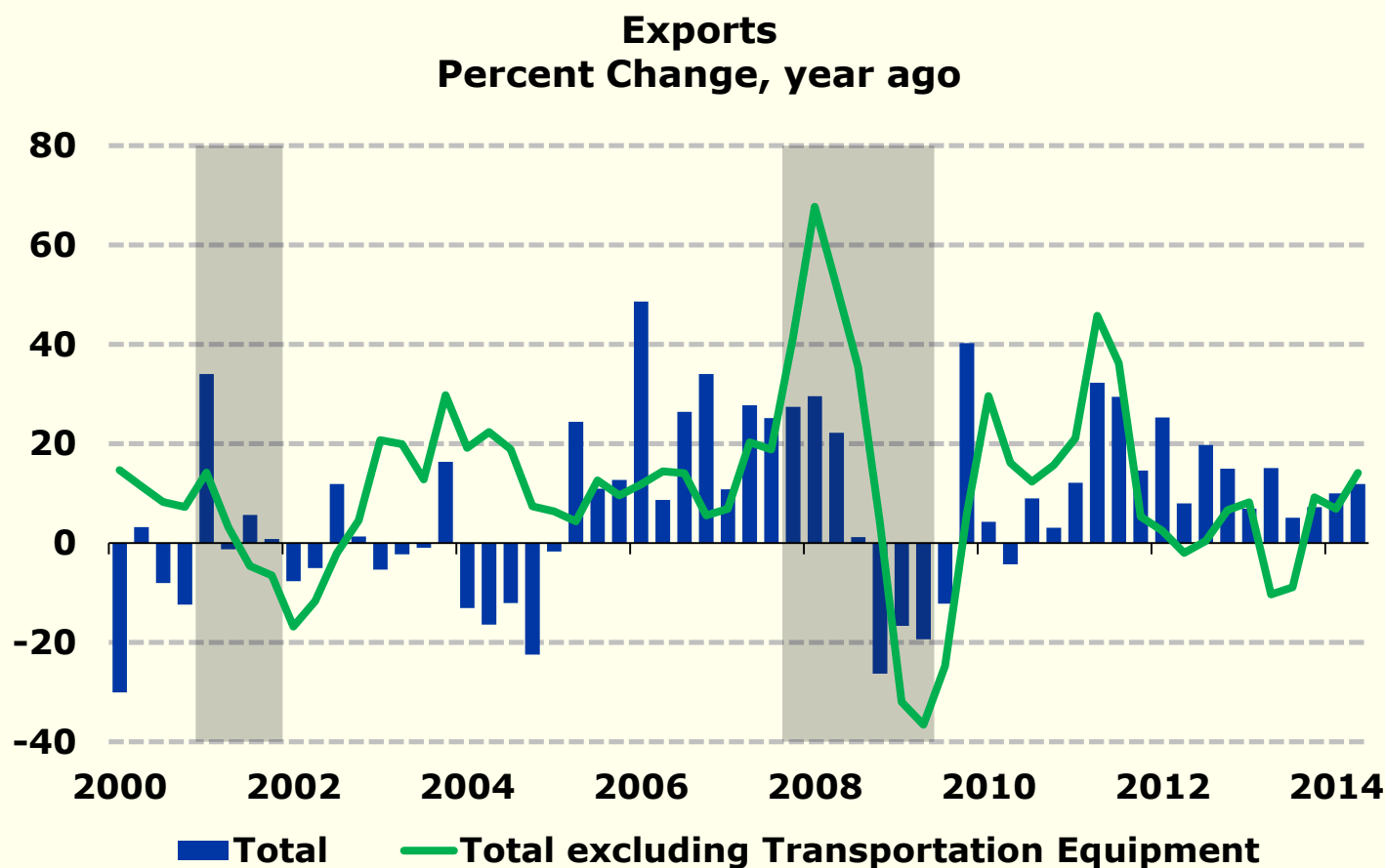


Source: Institute of Supply Management; data through July 2014

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# Non-transportation equipment export growth are back in positive territory



Source: Wisner Trade Data; through 2014Q2

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# Russia has typically accounted for less than 1% of state exports



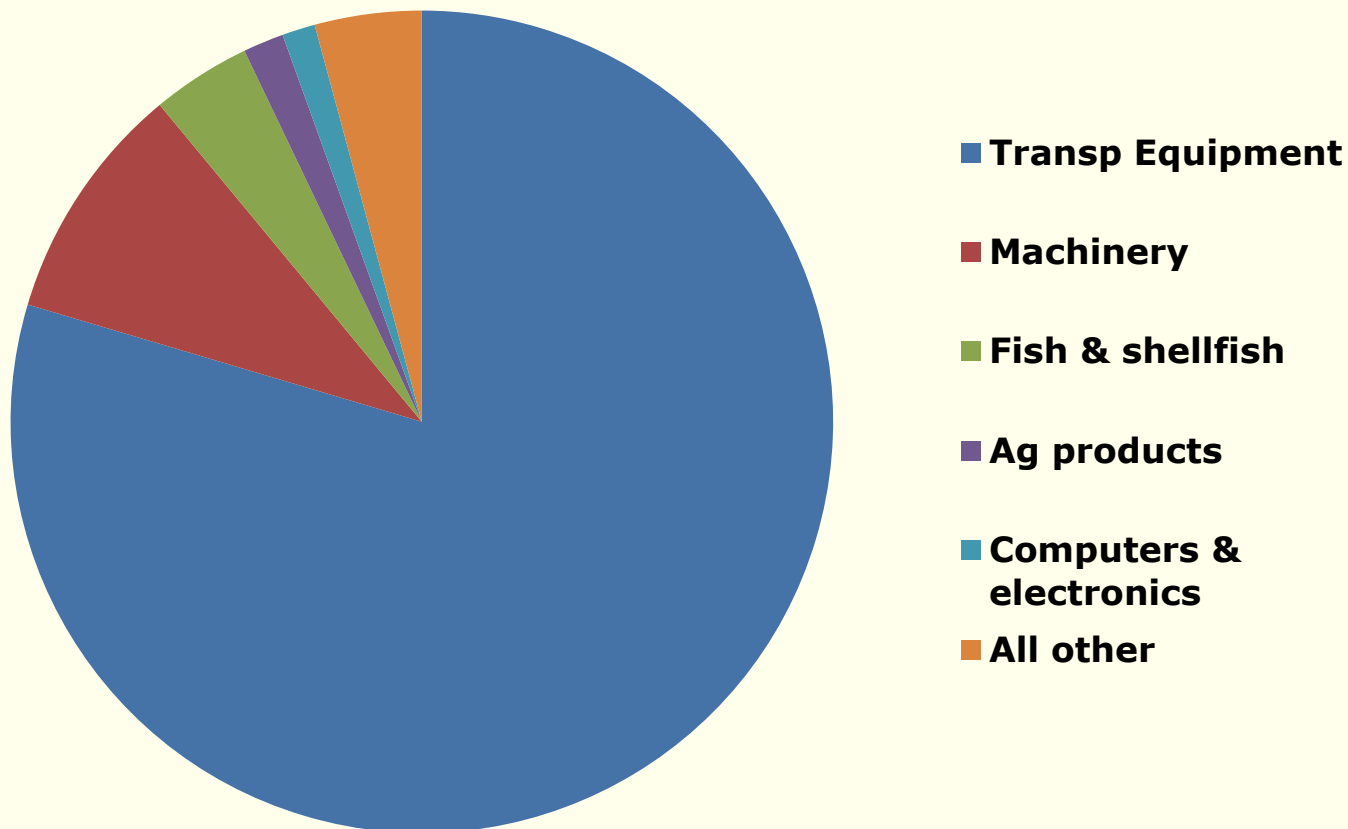
Source: WISERTrade, data through 2013



# Aerospace accounts for most state exports to Russia

As of June 2014, Boeing has 93 unfilled orders from Russia

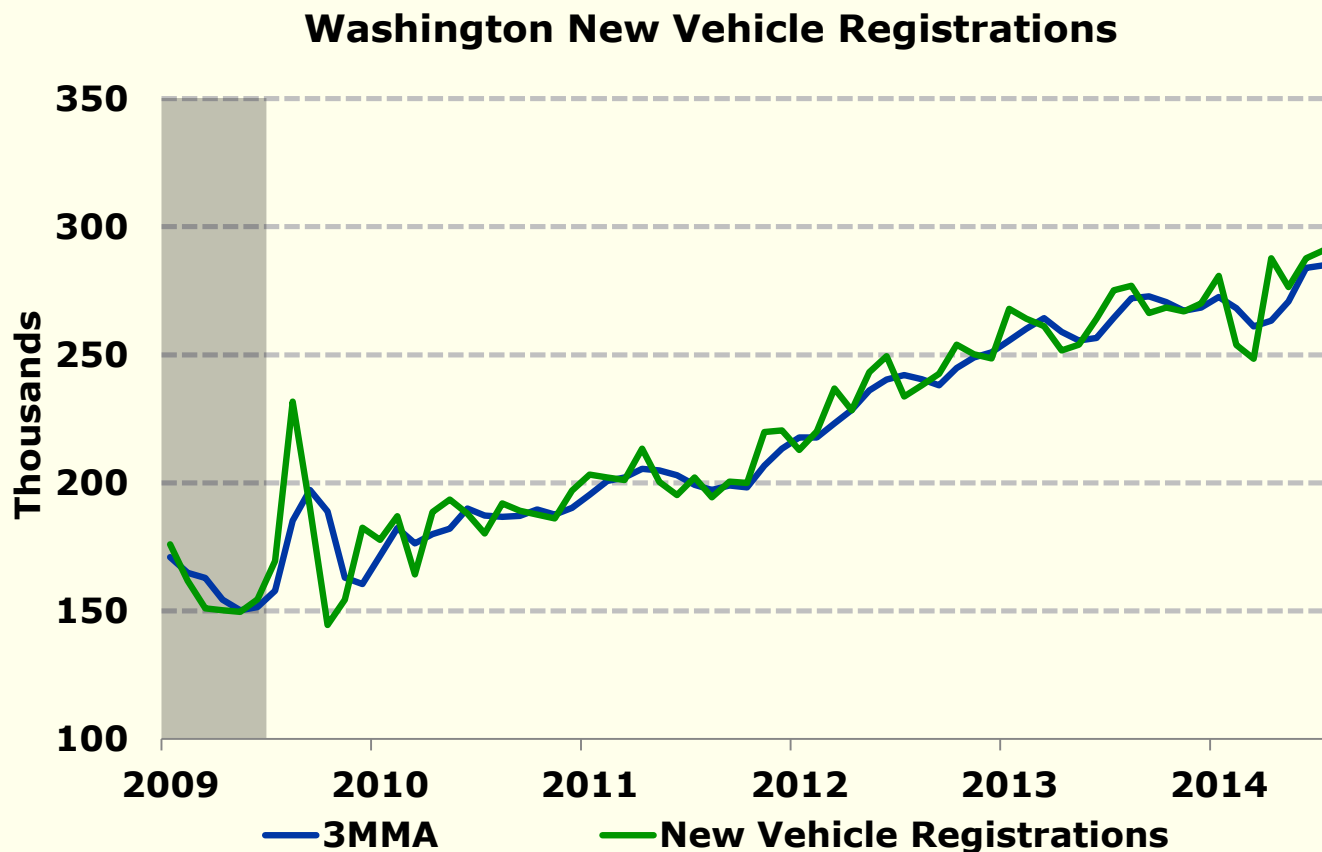
**Exports to Russia by Industry, 2013**



Source: WISERTrade



# Growth in Washington new vehicle registrations is slowing



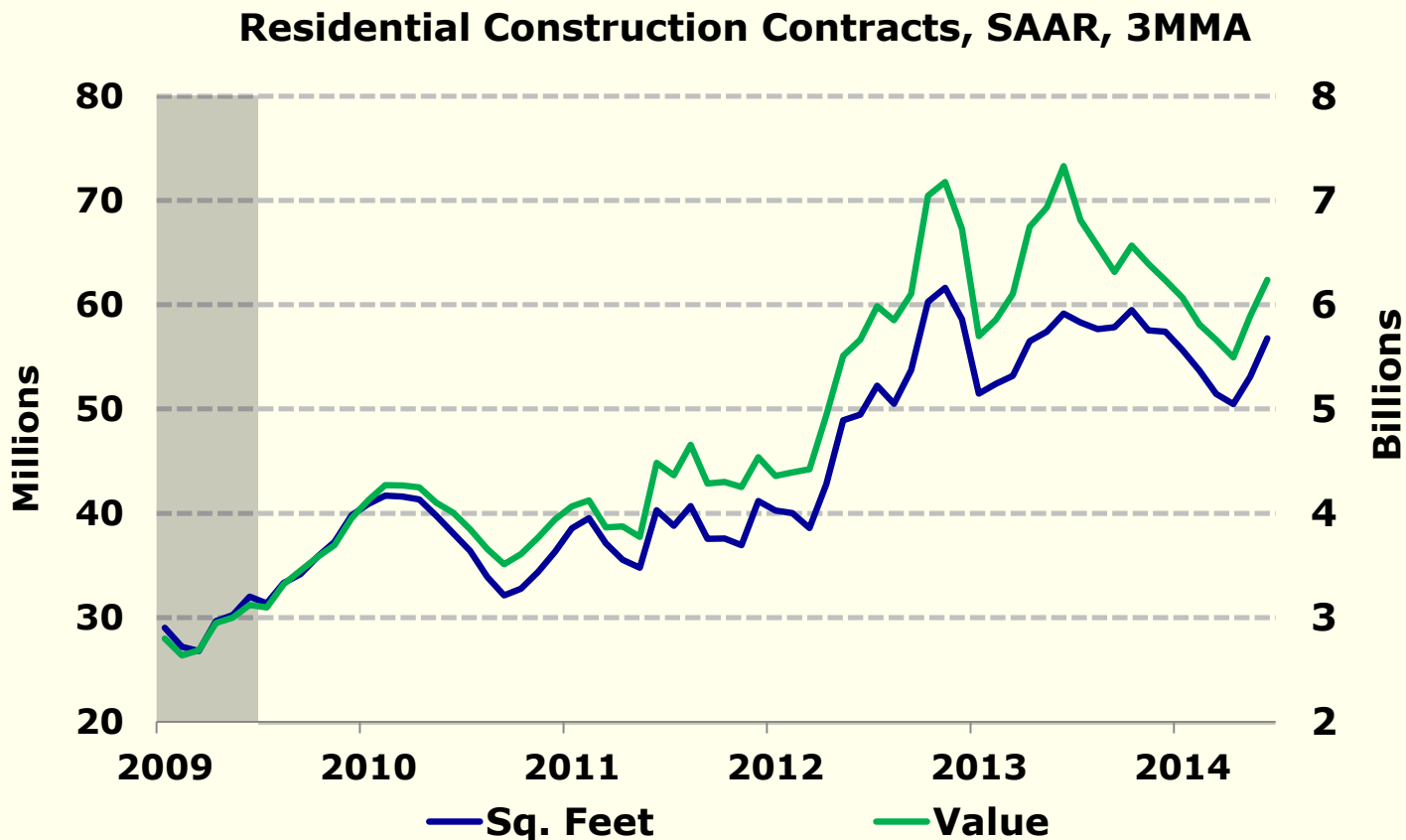
Source: Department of Licensing, ERFC; data through July 2014

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# Contract data shows recent slowdown in residential construction may be ending

Residential square footage is down 4%, and value is down 15% year over year (3mma).

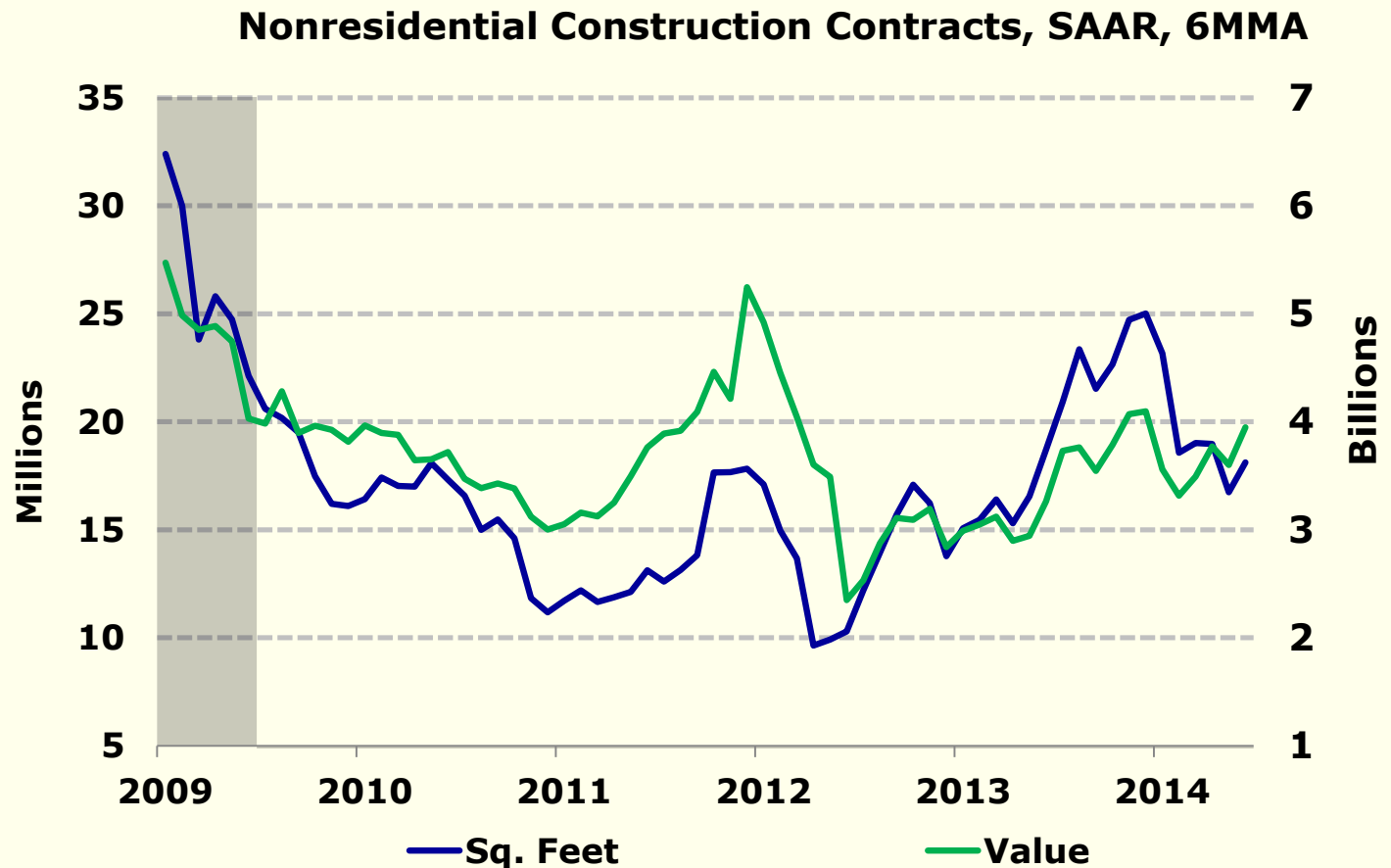


Source: Dodge, ERFC; data through June 2014



# Contract data shows upward weak trend in nonresidential construction

Non-Residential square footage is down 3%, and value is up 21% year over year (6mma).



Source: Dodge, ERFC; data through June 2014

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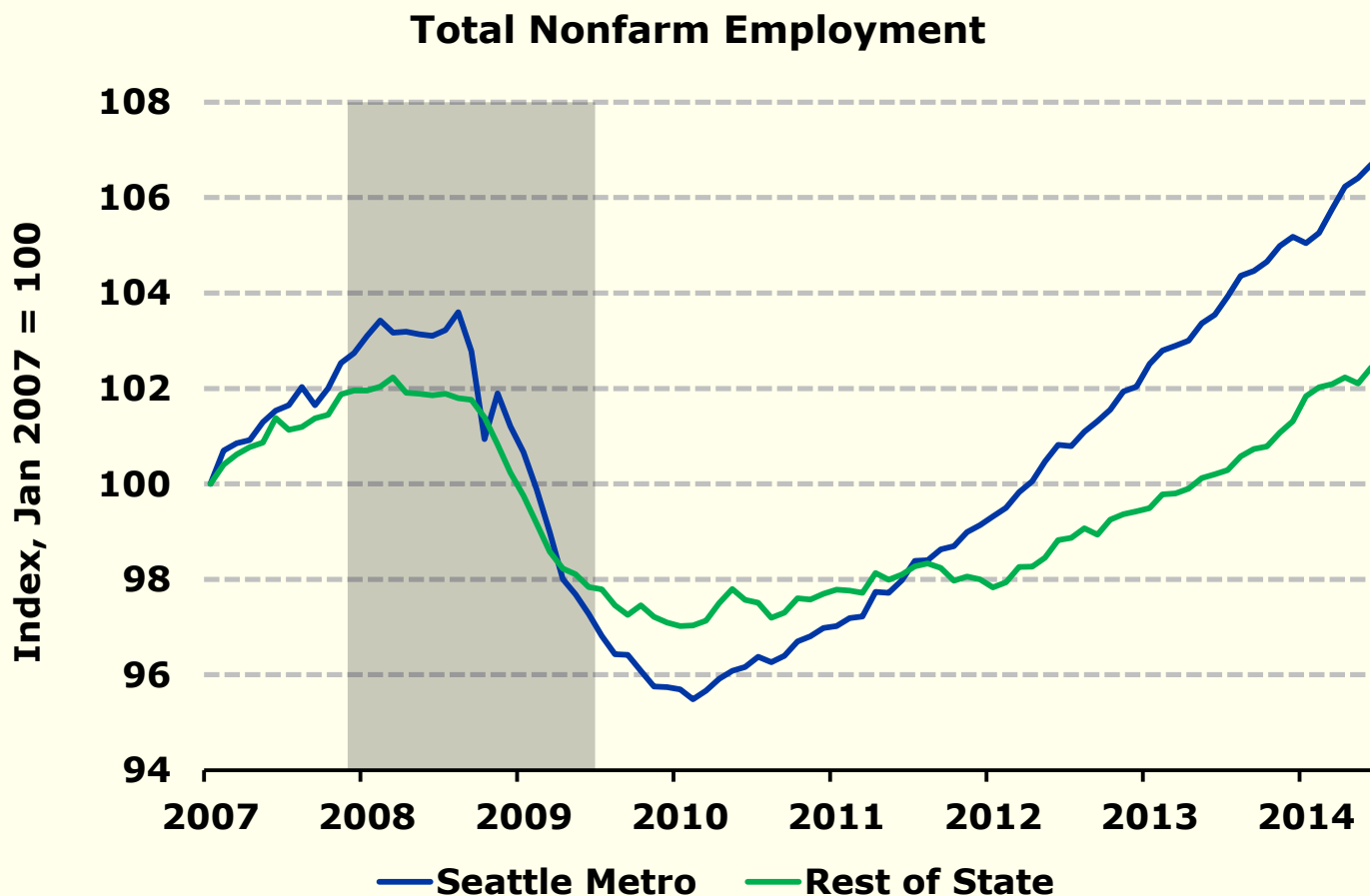
# Seattle area employment is growing much faster than the rest of the state

Outside of Seattle metro area, employment did not return to its pre-recession peak until June

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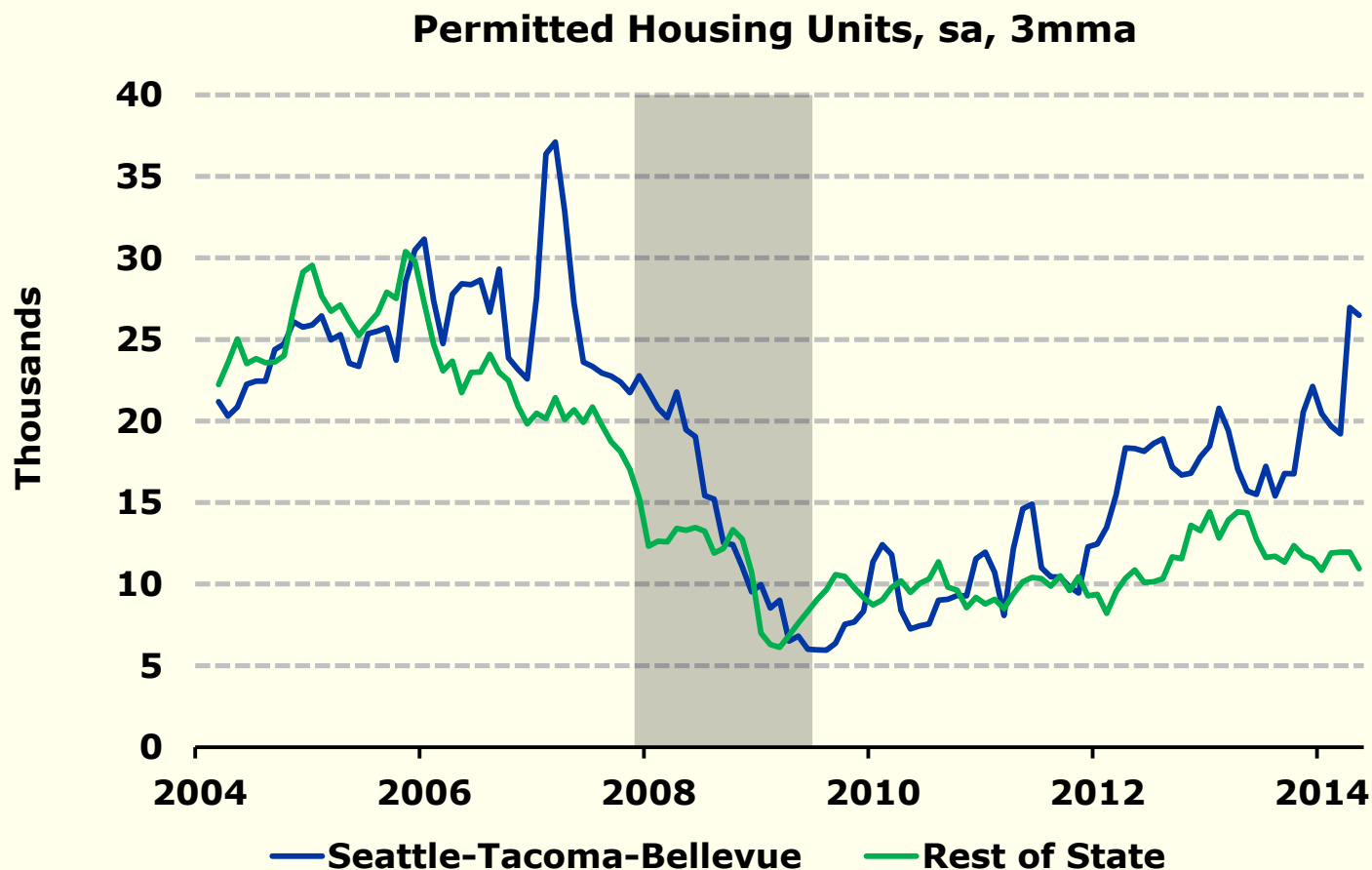
Source: Employment Security Department, ERFC; data through June 2014

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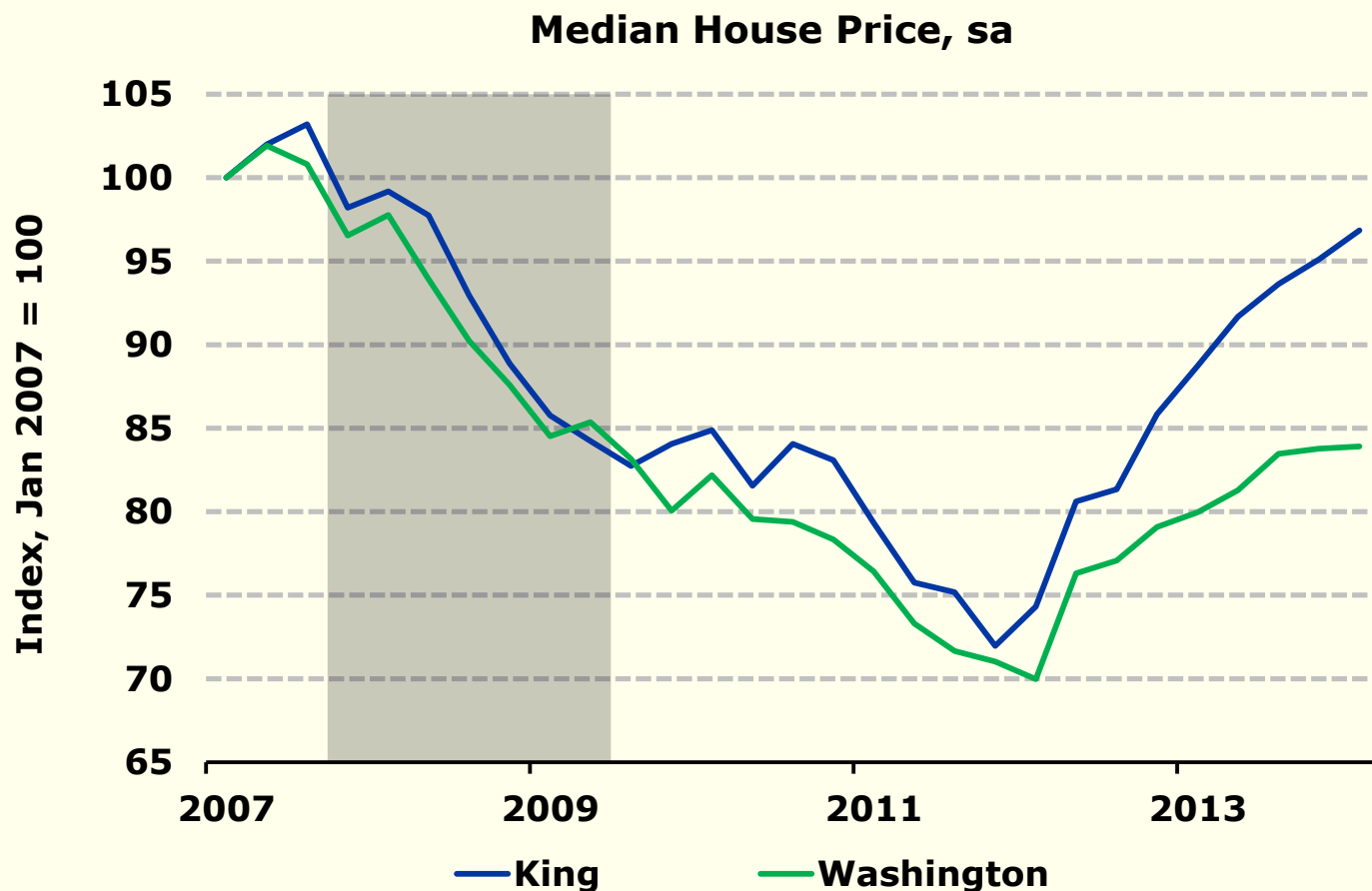
# Seattle area housing is growing much faster than the rest of the state



Source: Census, ERFC; data through May 2014



# King County house prices are rising faster than the rest of the state

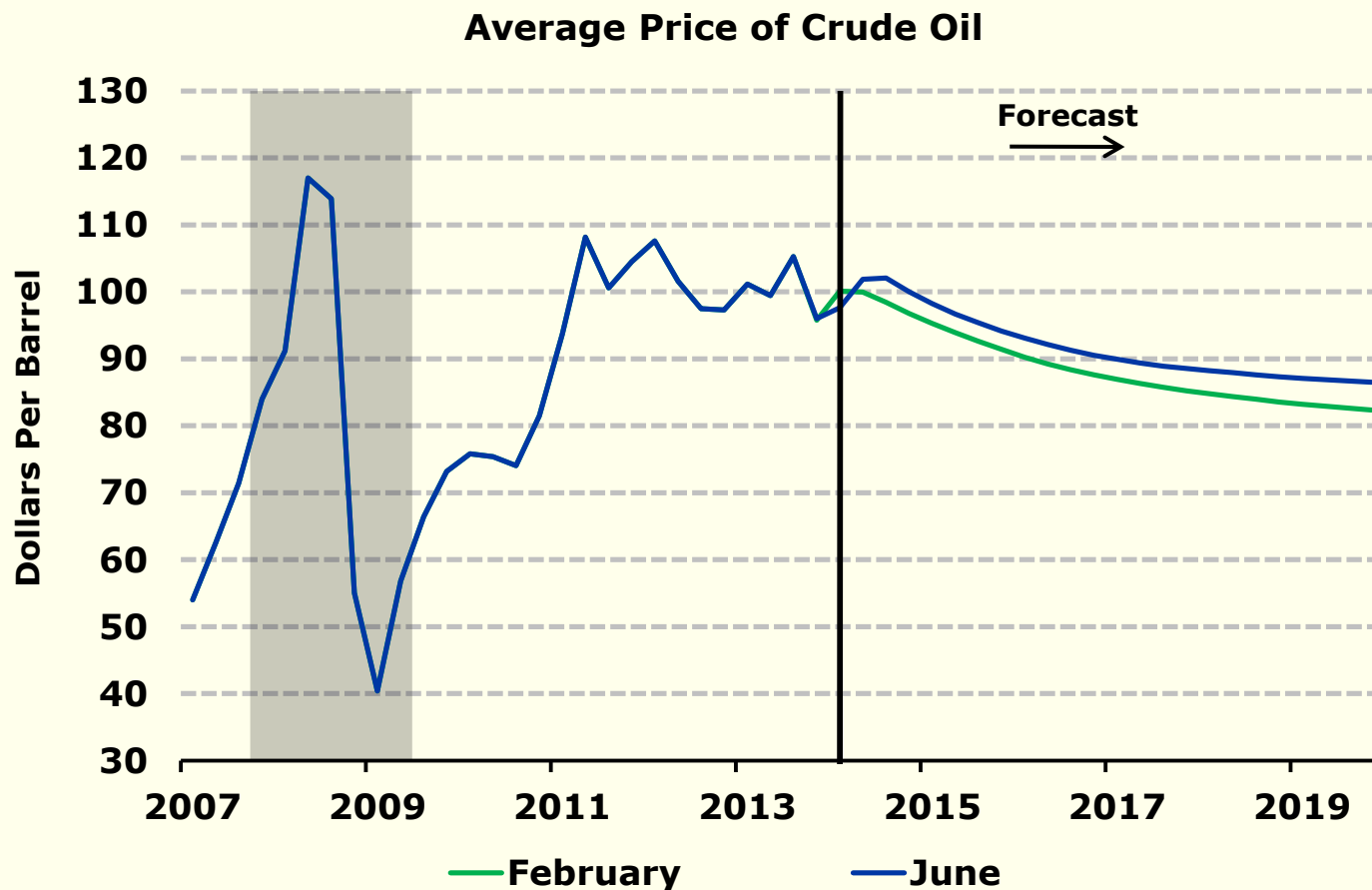


Source: WA Center Real Estate Research, ERFC; data through 2014Q1

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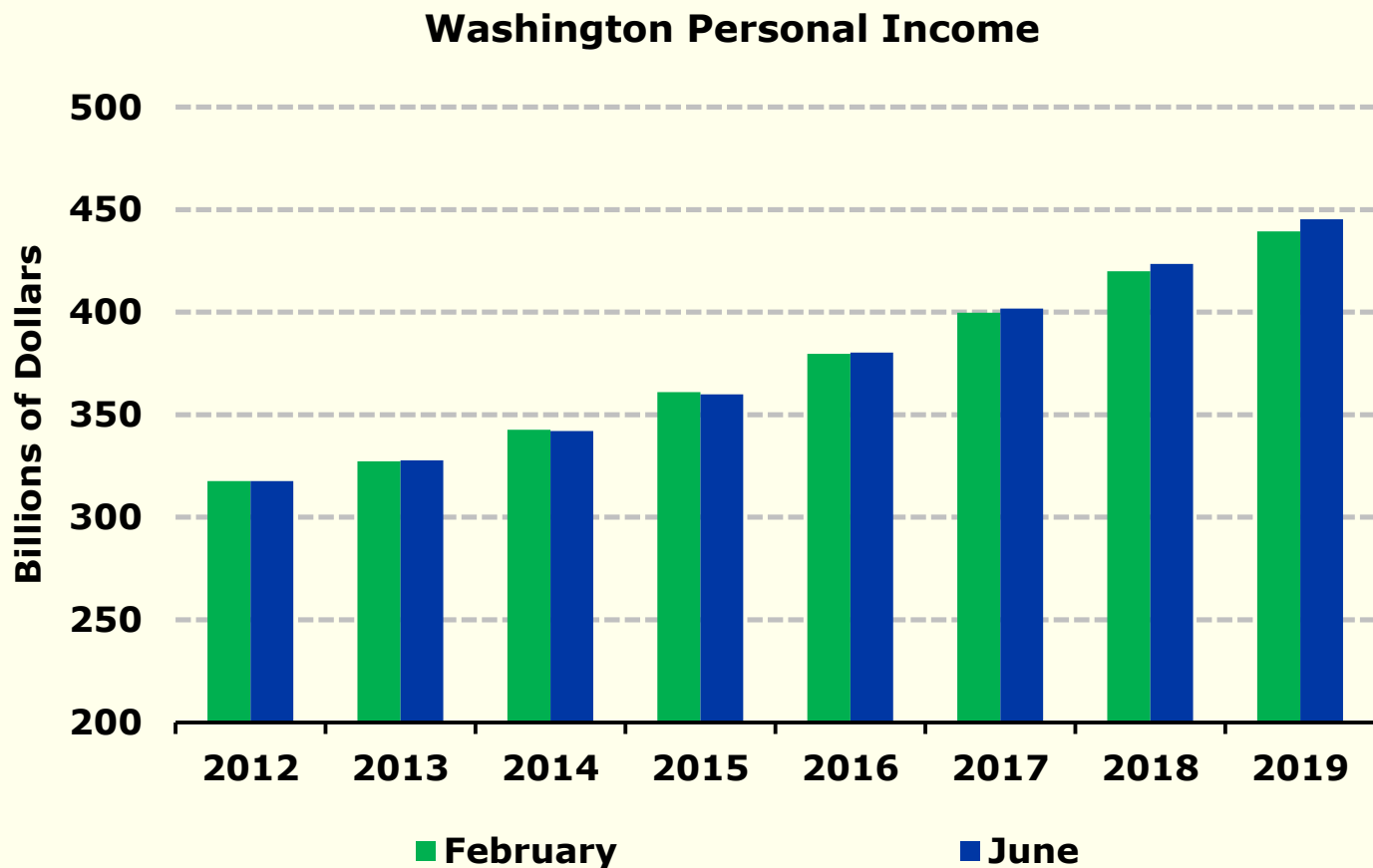
# Oil prices are slightly higher in June forecast



Source: DOE, ERFC June 2014 forecast; historical data through 2014Q1



# Washington personal income forecast is similar to the February forecast



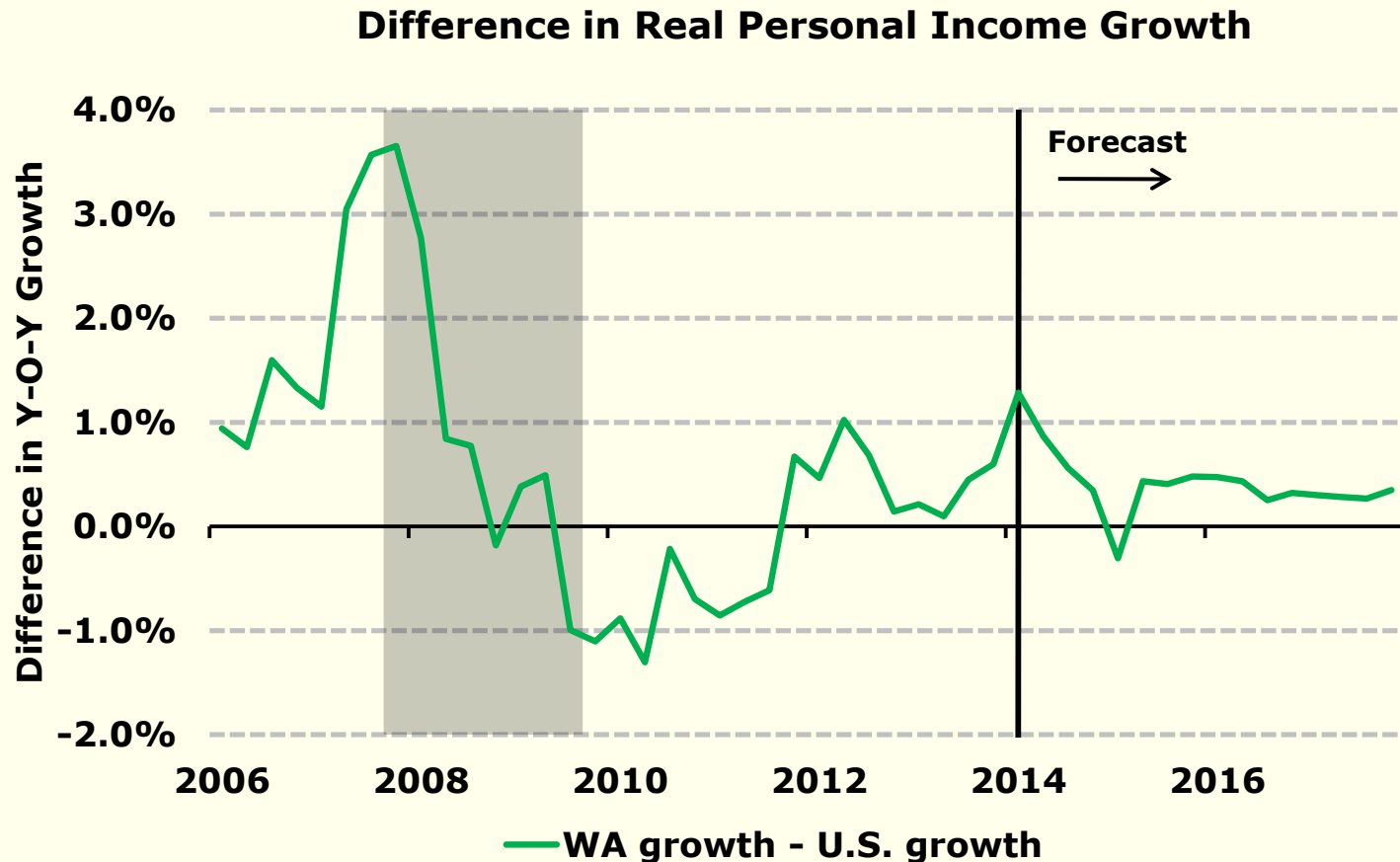
Source: ERFC June 2014 forecast; historical data through 2013

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# State personal income will grow slightly faster than the U.S.

Slower WA growth in 2015Q1 reflects impact of 2014Q1 Boeing bonus



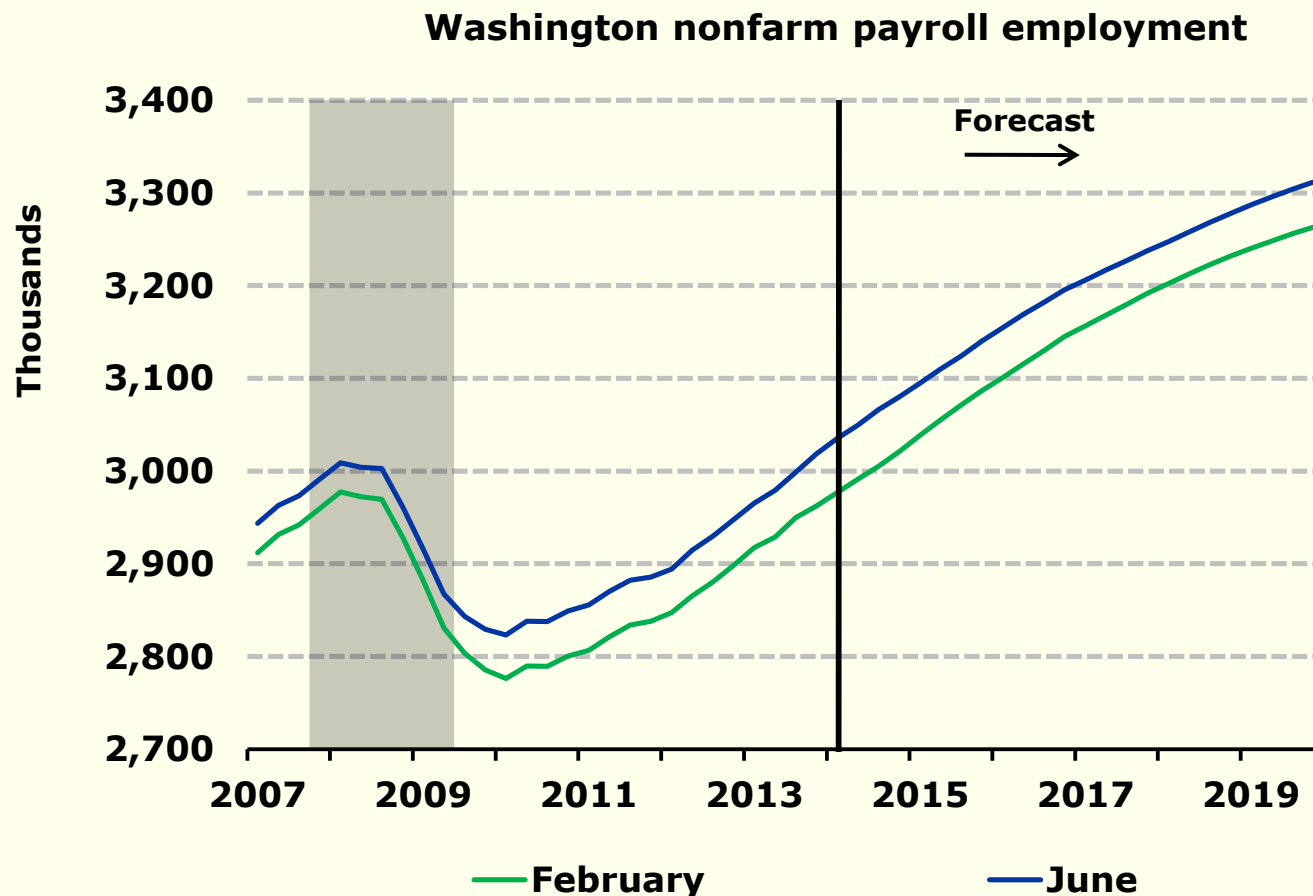
Source: ERFC June 2014 Forecast; historical data through 2014Q1

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# Higher Washington payroll employment largely due to data reclassification

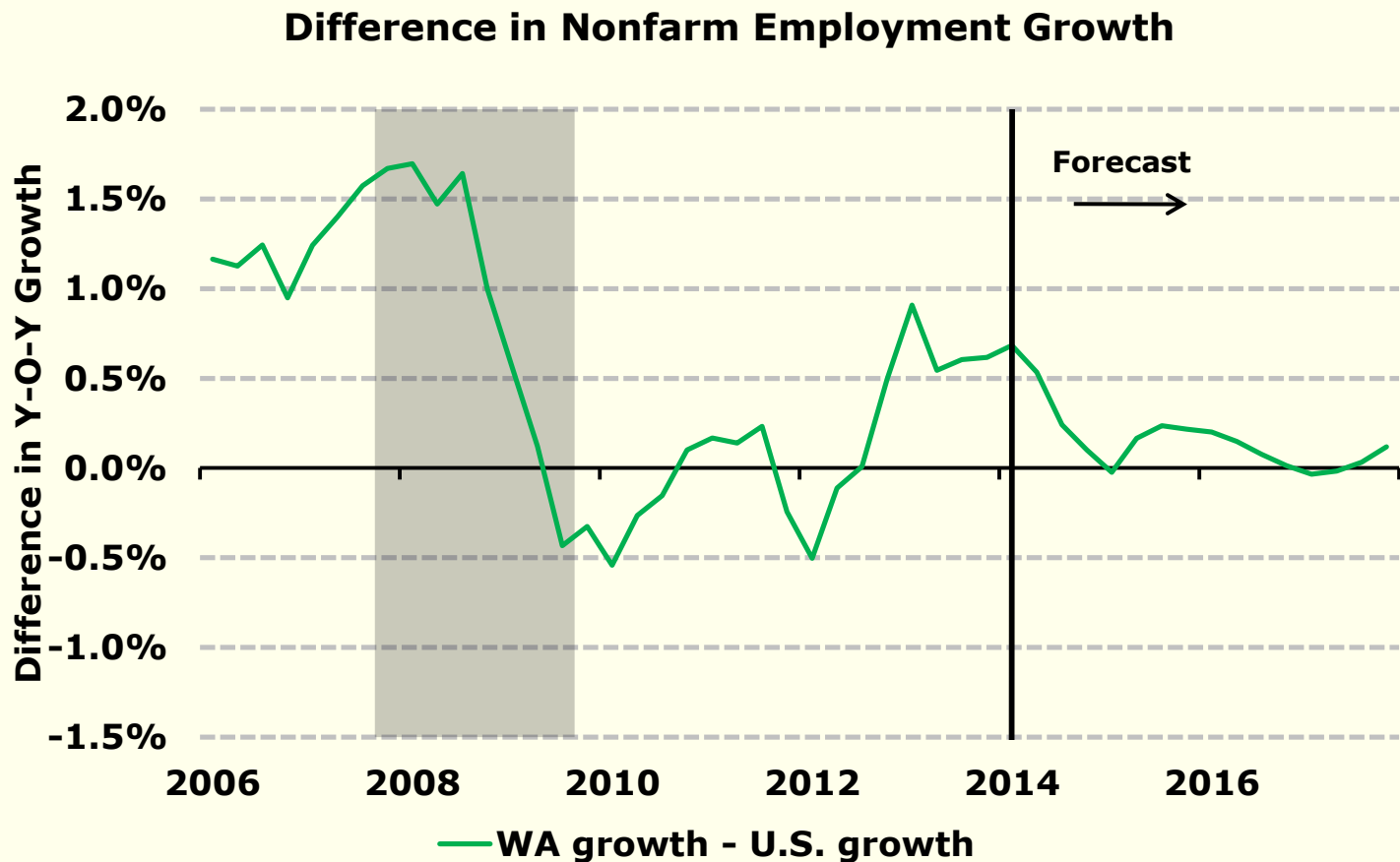
Average employment growth of 1.7% for 2014 to 2019 is unchanged from February



Source: Global Insight, ERFC June 2014 forecast; historical data through 2014Q1



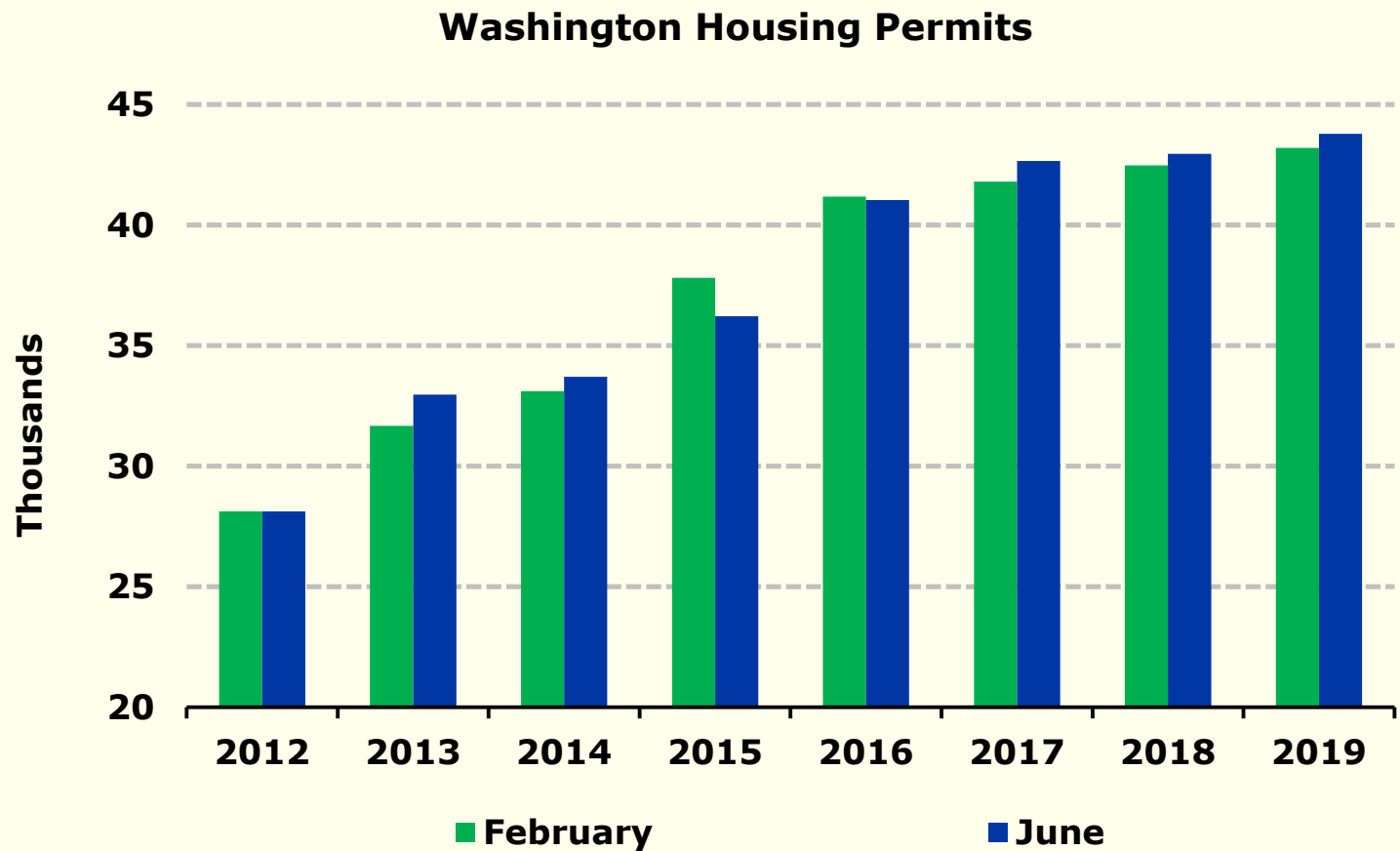
# Washington employment will grow slightly faster than the U.S.



Source: ERFC June 2014 forecast; historical data through 2014Q1



# Washington housing permits forecast: slightly lower in 2015 – 2016, slightly higher in 2017 - 2019



Source: ERFC June 2014 forecast; historical data through 2013

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# Sales tax growth was strong in the second quarter

Adjusted sales tax collections were up 4.6% year-over-year for 1<sup>st</sup> quarter activity and 8.5% for 2<sup>nd</sup> quarter activity.

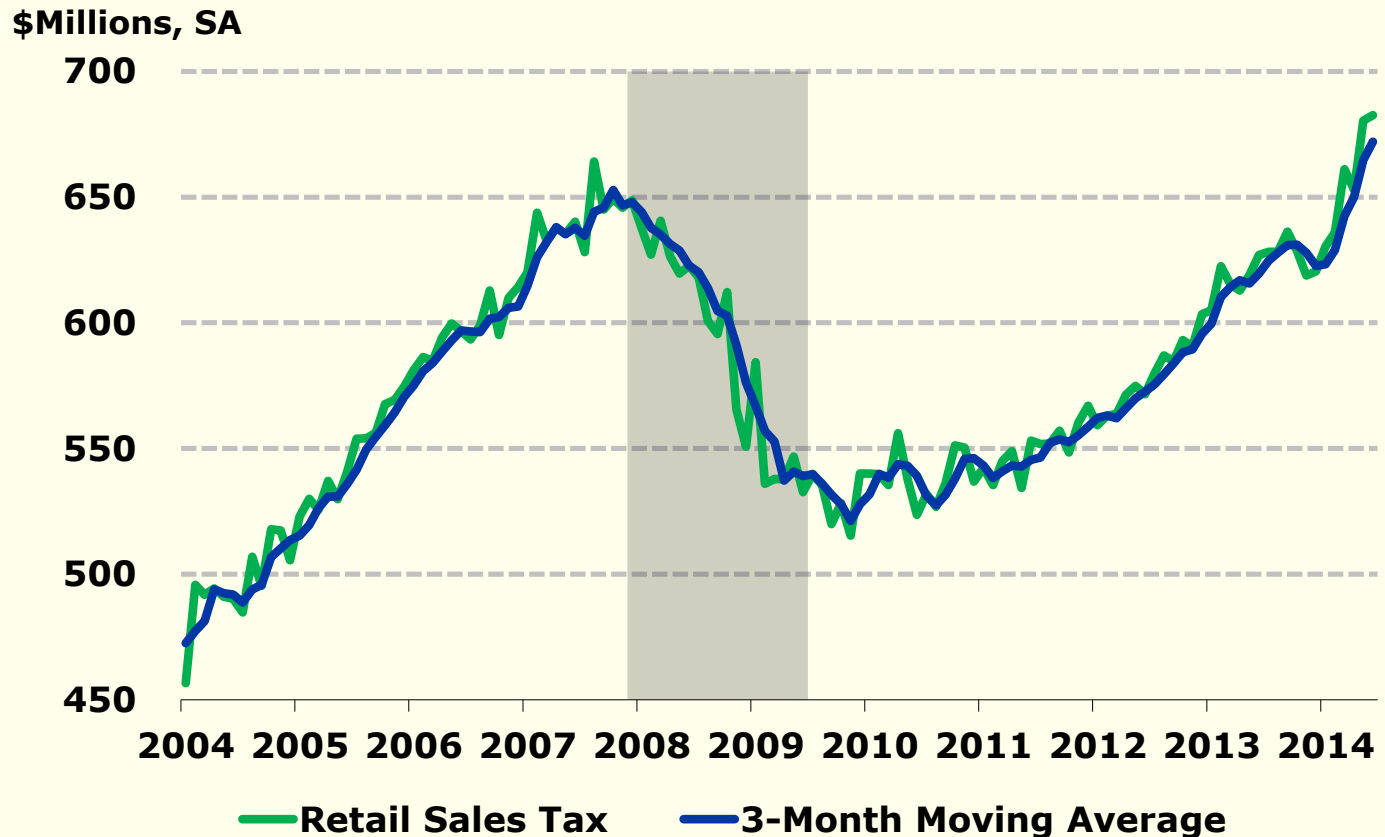
The 2<sup>nd</sup> quarter saw strong growth in construction, auto sales, and general merchandise stores

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## Washington Retail Sales Tax Receipts



Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change

Source: ERFC; Monthly data through June 2014 preliminary activity

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# REET activity is flat except for bursts of large commercial sales

Residential activity is up year over year but increase is from price increases; the number of transactions is down year over year

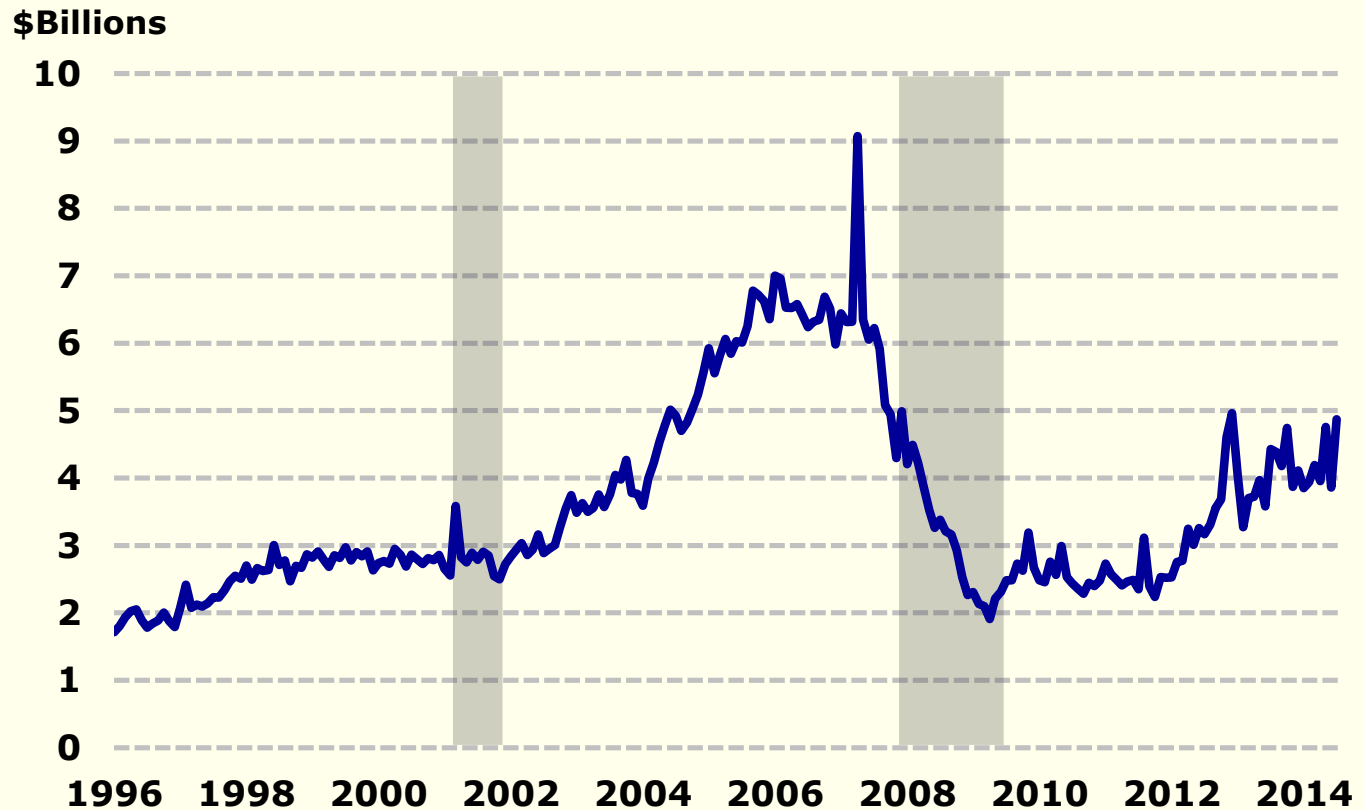
Large commercial sales (>\$10 million) continue to surprise on the upside

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**Seasonally Adjusted Taxable Real Estate Excise Activity**

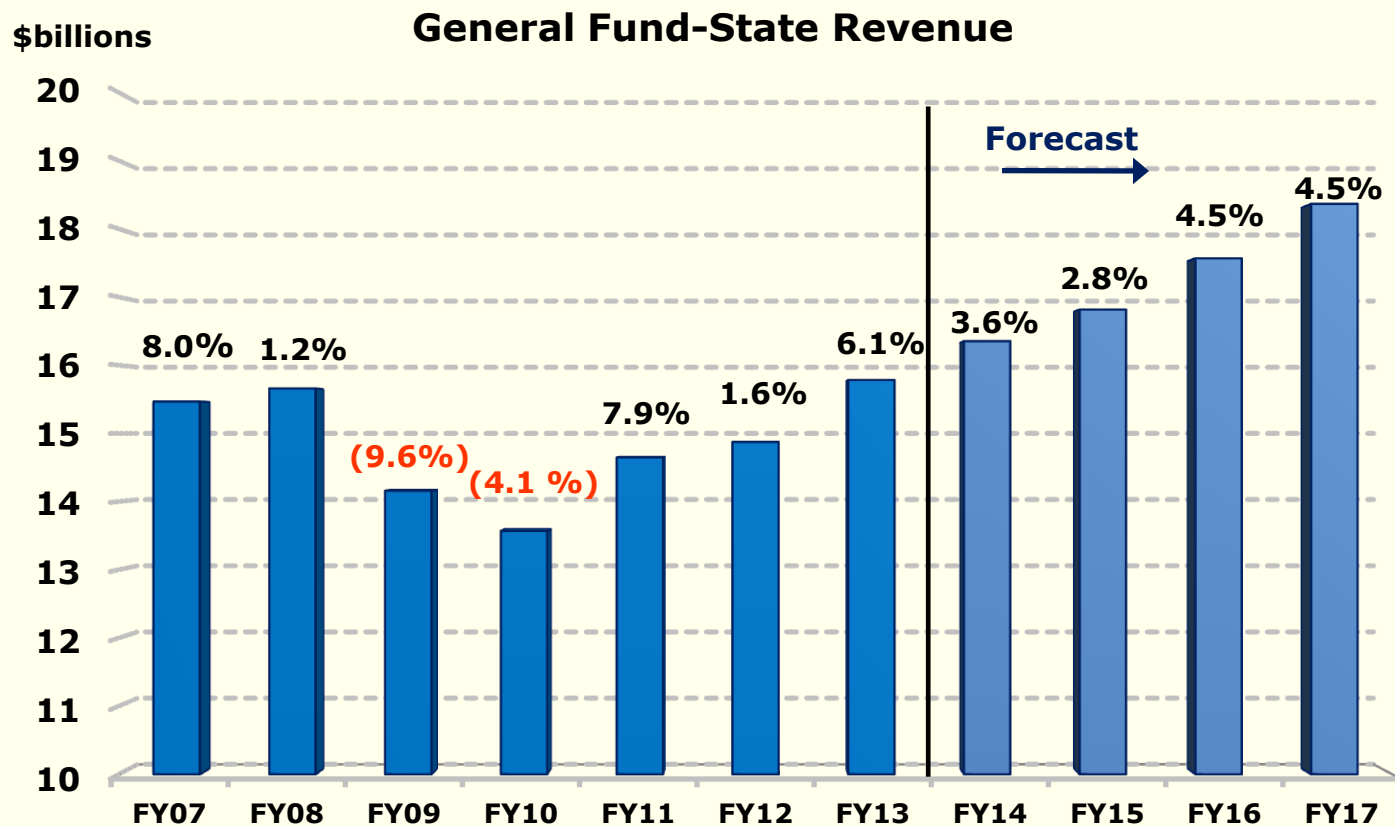


Source: ERFC; Monthly data through July 2014 preliminary

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# General Fund-State\* forecast by fiscal year



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\*General Fund-State & Related Funds for FY 07-09, General Fund-State new definition for FY 10-17  
Source: ERFC forecast, June 2014

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# GF-S cannabis revenue estimates

Total cannabis taxes for July 2014 are about \$0.9 million

**\$Millions**

**June Forecast**

**2013-15**

**2015-17**

**2017-19**

General Fund share of excise tax and license fees

\$0

\$22.9

\$63.0

Retail sales tax and B&O

\$0

\$28.3

\$75.4

Dedicated share of excise tax and license fees

\$0

\$110.8

\$285.5

**Total**

**\$0**

**\$162.0**

**\$424.0**

Source: ERFC, BOTE Analysis; detail may not add to total due to rounding

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# Conclusion

- The economic forecast is quite similar to February's forecast; we expect the slow pace of economic recovery to continue in both the U.S. and Washington economies
- We continue to expect the Washington economy to be slightly stronger than the U.S. economy
- Revenue collections are expected to grow 8.2% between the 2011-13 and 2013-15 biennia and 8.3% between the 2013-15 and 2015-17 biennia
- The level of uncertainty in the baseline forecast remains high, with risks on both the downside and upside



# Questions



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